

ANNUAL FINANCIAL REPORT

of the

**SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL**

**For the Years Ended
August 31, 2022 and 2021**

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SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Southeast Texas Regional Advisory Council:

Opinion

We have audited the accompanying financial statements of the Southeast Texas Regional Advisory Council (SETRAC) (a nonprofit organization), which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SETRAC as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SETRAC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SETRAC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SETRAC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SETRAC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2023 on our consideration of SETRAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SETRAC's internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* in considering SETRAC's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 6, 2023

**SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL**

STATEMENTS OF FINANCIAL POSITION

August 31, 2022 and 2021

	2022	2021
<u>Assets</u>		
Cash and cash equivalents	\$ 4,844,859	\$ 1,315,542
Grants receivable	203,158	920,851
Other receivable	154,628	162,018
Prepaid expenses	978	106,039
Property and equipment, net	1,352,913	1,585,441
Total Assets	6,556,536	4,089,891
 <u>Liabilities</u>		
Accounts payable	356,009	424,135
Total Liabilities	356,009	424,135
 <u>Net Assets</u>		
Without donor restrictions	5,888,476	3,524,020
With donor restrictions	312,051	141,736
Total Net Assets	6,200,527	3,665,756
Total Liabilities and Net Assets	\$ 6,556,536	\$ 4,089,891

See notes to financial statements.

**SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL**
STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities						
<u>Revenues and Support</u>						
Grants	\$ -	\$ 6,024,281	\$ 6,024,281	\$ -	\$ 14,185,707	\$ 14,185,707
Other program revenues	5,373,498	-	5,373,498	2,260,109	-	2,260,109
Interest income	7,674	-	7,674	1,338	-	1,338
Net assets released from restrictions	5,853,966	(5,853,966)	-	15,749,704	(15,749,704)	-
Total Revenues and Support	<u>11,235,138</u>	<u>170,315</u>	<u>11,405,453</u>	<u>18,011,151</u>	<u>(1,563,997)</u>	<u>16,447,154</u>
<u>Expenses</u>						
Program services:						
Training program expenses	7,032,324	-	7,032,324	13,933,468	-	13,933,468
Support services:						
General and administrative	1,838,358	-	1,838,358	1,224,549	-	1,224,549
Total Expenses	<u>8,870,682</u>	<u>-</u>	<u>8,870,682</u>	<u>15,158,017</u>	<u>-</u>	<u>15,158,017</u>
Change in Net Assets from Operating Activities	<u>2,364,456</u>	<u>170,315</u>	<u>2,534,771</u>	<u>2,853,134</u>	<u>(1,563,997)</u>	<u>1,289,137</u>
Beginning net assets	3,524,020	141,736	3,665,756	670,886	1,705,733	2,376,619
Ending Net Assets	<u>\$ 5,888,476</u>	<u>\$ 312,051</u>	<u>\$ 6,200,527</u>	<u>\$ 3,524,020</u>	<u>\$ 141,736</u>	<u>\$ 3,665,756</u>

See notes to financial statements.

SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended August 31, 2022 and 2021

	2022			2021		
	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
	<u>Program Expenses</u>	<u>General and Administrative</u>		<u>Program Expenses</u>	<u>General and Administrative</u>	
Project spending for facilities	\$ 258,986	\$ -	\$ 258,986	\$ 1,403,206	\$ -	\$ 1,403,206
Reimbursements to facilities	481,146	-	481,146	809,150	-	809,150
Payroll	4,562,397	844,481	5,406,878	6,067,757	344,803	6,412,560
Contract services	146,002	-	146,002	172,278	-	172,278
Contractual emergency services	864,269	-	864,269	4,527,346	-	4,527,346
Travel/meetings/conferences	208,201	11,801	220,002	66,407	29,408	95,815
Legal and professional	-	37,147	37,147	-	116,138	116,138
Telephone	9,597	28,590	38,187	16,697	18,872	35,569
Donations	-	50,000	50,000	-	-	-
Preventive maintenance	35,936	-	35,936	342,406	-	342,406
Subscriptions	5,400	-	5,400	5,400	-	5,400
Miscellaneous	41,537	104,505	146,042	12,464	110,480	122,944
Communications	35,676	22,851	58,527	49,186	28,817	78,003
Insurance	-	187,358	187,358	-	133,063	133,063
Office and computer supplies	-	52,414	52,414	-	47,937	47,937
Postage	-	3,576	3,576	-	8,700	8,700
Rent	150,649	261,136	411,785	145,182	241,513	386,695
Website	-	217,012	217,012	-	139,224	139,224
Printing	-	8,884	8,884	-	385	385
Bank charges	-	8,603	8,603	-	5,209	5,209
	Total Expenses					
	Before Depreciation	1,838,358	8,638,154	13,617,479	1,224,549	14,842,028
Depreciation	232,528	-	232,528	315,989	-	315,989
	Total Expenses	\$ 1,838,358	\$ 8,870,682	\$ 13,933,468	\$ 1,224,549	\$ 15,158,017

See notes to financial statements.

SOUTHEAST TEXAS REGIONAL ADVISORY COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Grant payments	\$ 6,741,974	\$ 14,060,534
Payments received for other program contractual fees	4,944,260	1,922,138
Other miscellaneous revenue payments	444,302	326,199
Payments to personnel for services and vendors for goods rendered	(8,601,219)	(15,012,361)
Net Cash Provided by Operating Activities	3,529,317	1,296,510
Cash Flows from Investing Activities:		
Purchase of property and equipment	-	(1,095,336)
Net Cash (Used) by Investing Activities	-	(1,095,336)
Net Increase in Cash and Cash Equivalents	3,529,317	201,174
Beginning cash and cash equivalents	1,315,542	1,114,368
Ending Cash and Cash Equivalents	\$ 4,844,859	\$ 1,315,542
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets	\$ 2,534,771	\$ 1,289,137
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	232,528	315,989
(Increase) in assets:		
Grants receivable	717,693	(120,907)
Other receivable	7,390	(12,860)
Prepaid expenses	105,061	(734)
Increase (decrease) in liabilities:		
Accounts payable	(68,126)	(169,599)
Unearned revenue	-	(4,516)
Net Cash Provided by Operating Activities	\$ 3,529,317	\$ 1,296,510

See notes to financial statements.

SOUTHEAST TEXAS REGIONAL ADVISORY COUNCIL

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2022 and 2021

NOTE 1 – ORGANIZATION

Southeast Texas Regional Advisory Council (SETRAC) is a not-for-profit corporation chartered in November 1995. SETRAC is designed to facilitate the development, implementation, and operation of a comprehensive trauma care system based on accepted standards of care to decrease morbidity and mortality. SETRAC is tasked with the mission of providing collaborative planning and response to emergencies, in a multi-disciplinary approach, and to preserve the medical infrastructure in 25 counties of southeast Texas.

SETRAC, along with 21 other regions in Texas, is funded through the Texas Department of State Health Services/Emergency Medical Services (DSHS/EMS) Trauma System funds generated by fees for 911 services. SETRAC also receives funding from the DSHS/EMS Trauma System Development Account.

A large portion of SETRAC's grant revenue is from the Texas Hospital Preparedness Program grant (HPP) through the federal office of the Assistant Secretary for Preparedness and Response. HPP provides funding for training and oversight to hospitals and emergency providers for the 25-county region. SETRAC works with the stakeholders to ensure the region is prepared to respond to the nation's health security for pandemics, terrorist attacks, earthquakes, hurricanes, and other natural and man-made disasters.

SETRAC also devotes a portion of their activity to servicing local governmental entities within their region through contractual agreements to facilitate other programs for specific emergency and medical demands. With SETRAC's network of healthcare providers and first responders, along with knowledge of their region's medical infrastructure, SETRAC has broadened their line of services beyond the services funded through grant revenues.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

SETRAC maintains its books on the accrual basis of accounting; revenues are recorded when earned and expenses are recognized when an obligation is incurred.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, Board-designated.

SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Grant and Other Program Revenues and Receivables

Revenues received through grants and other program revenues are recorded as ‘with donor restrictions’ or ‘without donor restrictions’, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Receivables represent grant funds and other program revenue from contractual fees that are uncollected at August 31, 2022. Management provides for estimated uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on its assessment of the current status of individual receivables. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges and a credit to the applicable receivable. Based on past experience and analysis of current receivable collectability, management has determined that no allowance for doubtful accounts is necessary at August 31, 2022.

Federal Income Taxes

SETRAC is an exempt organization for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SOUTHEAST TEXAS
REGIONAL ADVISORY COUNCIL
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

NOTE 3 – CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, SETRAC considers all money market funds along with funds placed in a certificate of deposit account registry service that receives Federal Deposit Insurance Corporation protection to be cash equivalents.

NOTE 4 – CONCENTRATIONS

The majority of SETRAC’s revenue and support are comprised of amounts received from the federal and state agencies for grants and contractual fees from agreements with local governmental entities. SETRAC’s revenue from grants in fiscal years 2021 and 2022 was approximately 86% and 53% of SETRAC’s total revenue, respectively. A significant loss of these grants could have a material adverse impact on SETRAC’s operations.

The type of revenues and support for SETRAC were as follows:

<u>Type of Revenues and Support</u>	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Grants				
Federal Grants:				
CPS - Hospital Preparedness	\$ 3,415,042	29.94%	\$ 6,376,651	38.76%
State Grants:				
COVID-19 State Deployment Reimbursement	930,488	8.16%	6,091,343	37.04%
State Emergency Management Funds	541,411	4.75%	571,557	3.48%
State Emergency Medical Services	1,137,340	9.97%	1,146,156	6.97%
Total Grants	<u>6,024,281</u>	<u>52.82%</u>	<u>14,185,707</u>	<u>86.25%</u>
Other Program Revenues				
Contractual Fees:				
Houston Fire Department Base Station Administration	1,936,870	16.98%	1,935,248	11.77%
Harris County Nurse Staffing Administration	3,000,000	26.30%	-	0.00%
Miscellaneous Program Income	436,628	3.83%	324,861	1.97%
Total Other Program Revenues	<u>5,373,498</u>	<u>47.11%</u>	<u>2,260,109</u>	<u>13.74%</u>
Interest Income	7,674	0.07%	1,338	0.01%
Total Revenues and Support	<u>\$ 11,405,453</u>	<u>100.00%</u>	<u>\$ 16,447,154</u>	<u>100.00%</u>

NOTE 5 – RECEIVABLES

SETRAC did not receive all of the Texas HPP grant funds or the contractual fees for the Houston Fire Department Base Station Administration contract for fiscal year 2022; therefore, there is a receivable from the State and from the City of Houston for the difference. The total receivables from the State for HPP grant funds for the years ended August 31, 2022 and 2021 were \$203,158 and \$920,851, respectively. The total receivables from the City of Houston for contractual fees for the years ended August 31, 2022 and 2021 were \$154,628 and \$162,018, respectively.

SOUTHEAST TEXAS
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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment details are as follows:

	<u>2022</u>	<u>2021</u>
Office equipment	\$ 54,730	\$ 55,531
Communications equipment	417,150	416,272
Computer equipment	6,060	5,704
Field equipment	948,099	975,071
Vehicles	4,105,296	4,153,013
Less accumulated depreciation	<u>(4,178,422)</u>	<u>(4,020,150)</u>
Total	<u>\$ 1,352,913</u>	<u>\$ 1,585,441</u>

Depreciation expense for the periods ended August 31, 2022 and 2021 was \$232,528 and \$315,989, respectively. Property and equipment decreased by \$74,256 for period August 31, 2022. There were additions to property and equipment for the period ended August 31, 2021 of \$1,095,336.

NOTE 7 – COMMITMENT AND CONTINGENCIES

SETRAC has agreements to lease an office and warehouse facilities. Under the lease provisions of these agreements, SETRAC lease commitments are contingent upon receipt of adequate state and/or federal grant and other program revenues. In the event that funding significantly decreases or becomes inadequate, SETRAC has the right to provide a 30-day written notice to the landlord to terminate its lease.

As of August 31, 2022, future minimum payments under the operating leases with initial terms of one year or more consisted approximately of the following:

Fiscal Year	
<u>Ending Aug. 31</u>	<u>Amounts</u>
2023	\$ 371,618
2024	356,476
2025	286,501
2026	244,454
2027	226,260
2028 - 2029	<u>428,369</u>
Total Minimum Lease Payments	<u>\$ 1,913,678</u>

For the fiscal year ended August 31, 2022 and 2021, total rent expense for the operating leases was \$411,785 and \$386,695. These expenses were included with rent within program and general and administrative expenses in the accompanying statement of functional expenses.

SETRAC programs are supported through federal and state grant programs along with local governmental contracts that are governed by various rules, regulations, and terms of agreements. Expenses charged to the grant programs and local governmental contracts are subject to audit and adjustments by the grantor.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

agencies or local governments; therefore, to the extent that SETRAC has not complied with the rules, regulations, and terms of the agreements, refunds of any money received may be required. In the opinion of management, there are no contingent liabilities relating to compliance with the rules, regulations, and terms of the agreements; therefore, no provisions have been made in the accompanying financial statements for such contingencies.

NOTE 8 – LIQUIDITY AND AVAILABILITY

The following represents SETRAC’s financial assets at August 31, 2022 and 2021, respectively.

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 4,844,859	\$ 1,315,542
Grants receivable	203,158	920,851
Other receivable	154,628	162,018
Prepaid expenses	978	106,039
Total Financial Assets	\$ 5,203,623	\$ 2,504,450

As part of SETRAC’s liquidity management, a policy is in place to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. As of August 31, 2022 and 2021, SETRAC had \$5,203,623 and \$2,504,450 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenses consisting of cash and cash equivalents, grants and other receivables, and prepaid expenses. These amounts includes assets with time or purpose restrictions as of August 31, 2022 and 2021 of \$312,051 and \$141,736, respectively. Management continues to anticipate that restricted requirements will be fulfilled within one year of the statement of financial position date. There are no financial assets that are subject to donor or other contractual restrictions that make the restrictions unavailable for general expenses within one year of the statement of financial position dates.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions relate to certain grant revenues for which the grantors have imposed purpose and/or time restrictions. Net assets with donor restrictions are recorded within cash and cash equivalents on the accompanying statements of financial position as of August 31, 2022 and 2021. These restrictions require SETRAC to expend such funds for expenses directly related to certain activities of SETRAC and to be released from donor restrictions when grantors have approved the activity related to restricted expenses. The donor-restricted funds released during the years ended August 31, 2022 and 2021 were approximately \$5,853,966 and \$15,749,704, respectively. These funds were expended and approved in accordance with donor restrictions and have been reclassified to net assets without donor restrictions.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Southeast Texas Regional Advisory Council Foundation (the “Foundation”) was created and organized in 2018 as a separate entity from SETRAC that collects and receives donations to help expand SETRAC’s missions in southeast Texas. The majority of the Foundation’s Board of Directors are not the Board of Directors of SETRAC. SETRAC does not have a controlling interest in the Foundation’s

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

activity nor has control over the Foundation's assets. The Foundation has a service arrangement with SETRAC for general and administration support. During the fiscal year 2022, SETRAC donated \$50,000 of funds without restrictions to the Foundation to be utilized for support services.

As of June 6, 2023, the Foundation's latest Form 990 was filed for fiscal year beginning September 1, 2020 and ending August 31, 2021 which reported net assets of \$48,143 with no revenues or expenses being reported for the tax year. The Foundation's Form 990 for fiscal year beginning September 1, 2021 and ending August 31, 2022 is in process of being completed as of June 6, 2023.

NOTE 11 – SUBSEQUENT EVENTS

In preparing the financial statements, SETRAC has evaluated all subsequent events and transactions for potential recognition or disclosure through June 6, 2023, the date the financial statements were available for issuance.