

**HARRIS COUNTY EMERGENCY SERVICES
DISTRICT #1**

FINANCIAL STATEMENTS
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008
AND THE YEAR ENDED SEPTEMBER 30, 2007

GAINER DONNELLY & DESROCHES

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT 1

REQUIRED SUPPLEMENTARY INFORMATION – MANAGEMENT’S
DISCUSSION AND ANALYSIS 2

FINANCIAL STATEMENTS

 Statements of Net Assets 6

 Statements of Revenues, Expenses and Changes in Net Assets 7

 Statements of Cash Flows 8

 Notes to the Financial Statements 10

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Harris County Emergency Services District #1
Houston, Texas

We have audited the accompanying statements of net assets of Harris County Emergency Services District #1 (the "District") as of December 31, 2008 and September 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the fifteen months ended December 31, 2008 and for the year ended September 30, 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harris County Emergency Services District #1 as of December 31, 2008 and September 30, 2007, and the changes in its net assets and its cash flows for the fifteen months ended December 31, 2008 and for the year ended September 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gainer Donnelly & Desroches LLP

March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Harris County Emergency Services District No. 1's (the "District") financial statements provide an overview of the District's financial performance for the fifteen months ended December 31, 2008. It includes comparative data for the year ended September 30, 2007. Current period information contains an additional quarter because the District changed its year end from September 30 to December 31 effective for the year ended December 31, 2008. Because the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's basic financial statements and the footnotes. Responsibility for the completeness of this information rests with the management of the District.

FINANCIAL HIGHLIGHTS

- On March 31, 2008, the District closed on a transaction to purchase a communication center for the amount of \$1,000,000. This amount was paid outright from the District's surplus. The purchase price included all assets and existing contracts associated with the non-profit communication center (previously known as Harris County Central Emergency Communications and Harris County Emergency Communications). The District previously utilized the communications center under a contract that required the District to pay an annual service fee of approximately \$266,000. Under this contract, the District had limited control of the services and technology needed to sustain the growth of the District. The communications center continues to provide service to fifteen third-party agencies, and the District charges these agencies a monthly fee dictated by individual contracts.
- On August 5, 2008, the District purchased the real property located at 2800 Aldine Bender Road, Houston, Texas for approximately \$4.9 million. The purchase included land, a building and building improvements made by the property owner. The purchase of the property was funded through a note with De Lage Landen Public Finance, LLC at an interest rate of 4.987%, for a term of 15 years. This will be the new administrative offices and communication center for the District. The District will move every department into the 50,000 square foot building, which will eliminate the need for rental properties currently used for the training division and the communication center. The projected completion date of this project is May 2009.
- In the new facility located at 2800 Aldine Bender, the District has decided and voted to open an urgent care facility which will provide urgent care to walk-in patients. The center will be designed as an additional training sight for our medical staff, enabling the staff to treat patients along side the District's two medical directors. This will give the staff more experience to assist them when delivering care to patients on an ambulance. The revenue from the urgent care facility will help offset the expense of the District's medical directors' salaries and help subsidize the uncovered health care delivered to non-insured patients by the District ambulances.

ECONOMIC FACTORS

The unsteady financial market has increased the difficulty of budgeting for economic factors in the current period. Fuel prices continued to soar, which directly impacted utilities, fleet parts and supplies, and amount of petroleum products used by the District.

With the downturn in the market and unemployment rates at an all time high, the District expects cash payments and private insurance revenues to be affected.

Management will continue to focus on increasing revenue at many different levels to help subsidize the District's indigent patient population. The District's goal is to ensure each citizen/patient has the most advanced pre-hospital healthcare at competitive rates without financially jeopardizing the District. Emphasis will continue to be placed on accurate data collection and patient demographics at the time of service, as this will increase the chance of collection of fees for service and insurance claims.

The District continually experiences a shortage of pre-hospital healthcare providers, which drives the wage of retaining employees well beyond what was anticipated. The challenge of maintaining longevity with employees has become increasingly difficult as the District is competing with other agencies for qualified applicants.

The District is continuing to work towards the National Accreditation through the Commission on Accreditation of Ambulance Services (the "Commission"). The District has already implemented ideas and scopes from the Commission and has to have all policies and ideas in place no less than 12 months prior to completion of the application. The stringent guidelines set forth by the accrediting agency and the effective quality control methods the District has in place make a strong foundation to maximize growth.

In conclusion, management believes that although the District will be challenged by reimbursement issues, competitive labor cost, emerging local competition, and the stiffened economy, it will continue to build its unrestricted cash reserves and reflect positive growth and an increase in net assets for the year ended December 31, 2009. The District adopted an operating budget in September 2008 for the calendar year 2009 and projected revenues of approximately \$13 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The financial statements included herein include all of the activities of the District using the reporting model as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34. The District has only business-type activities which consist of the operation of emergency medical services to citizens of North Harris County. This is reported as a single proprietary fund and accounts for activities essentially as they would be accounted for by a business operating in the private sector.

The Statement of Net Assets presents all of the District's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, an increase or decrease in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets, regardless of when cash is received or paid.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting. The following table reflects condensed information (rounded to the nearest thousand) on the District's net assets:

	December 31, 2008	September 30, 2007	Increase (Decrease)
Assets:			
Current Assets	\$ 11,840,000	\$ 3,121,000	\$ 8,719,000
Capital Assets, Net	8,795,000	2,572,000	6,223,000
Other Assets	800,000	-	800,000
Total Assets	21,435,000	5,693,000	15,742,000
Liabilities			
Accounts Payable and Accrued Expenses	\$ 794,000	\$ 297,000	\$ 497,000
Notes Payable - Current	765,000	536,000	229,000
Deferred Property Tax Revenue	7,529,000	-	7,529,000
Notes Payable - Long Term	5,610,000	437,000	5,173,000
Total Liabilities	14,698,000	1,270,000	13,428,000
Total Net Assets	\$ 6,737,000	\$ 4,423,000	\$ 2,314,000

For the period ended December 31, 2008, cash and cash equivalents increased approximately \$1,014,000 or 82%. This increase reflects early collections of the 2008 assessed property tax of approximately \$750,000. Fees for services receivable, net of allowance for uncollectible items, increased from \$1,588,000 in 2007 to \$2,247,000 in 2008 as a result of the change in fiscal year ends and increased volume. Though collection rates are relatively constant each year in terms of payment, the increase and change of any variable will impact the changes in allowance of uncollectible revenue. Healthcare costs continue to increase while the constituency remains predominately without healthcare coverage.

Taxes receivable increased approximately \$6,956,000. The increase in property tax receivables is offset by an increase in deferred taxes revenues of \$7,529,000 to reflect amounts not available as of December 31. Due to the District changing its year end to December 31, the 2008 tax levy is also included in the current period taxes receivable amount. The District's tax rate was increased from \$0.03 cents per \$100 for the 2006 tax year levy to \$0.10 cents per \$100 for the 2007 tax year levy. Tax collection is handled by the Harris County Tax Assessor's office. Delinquent tax collections are outsourced to the law firm of Linebarger, Goggan, Blair and Sampson.

Capital assets increased approximately \$6,223,000 due to the purchase of ambulances and medical equipment, the purchase of the new administration building and construction in progress. The increase in capital assets was offset by approximately \$898,000 of depreciation expense. Notes payable, including current and long term, increased from \$973,000 in 2007 to \$6,375,000 in 2008 due the purchase of 5 new ambulances, 9 heart monitors and the new administration building that were financed by several financial institutions.

Statement of Activities

The Statement of Activities presents the operating results of the District over a period of 15 months beginning October 1, 2007 and ending December 31, 2008 due to the change of fiscal year end from September 30 to December 31. The following table reflects condensed information (rounded to the nearest thousand) on the District's operations:

	<u>December 31,</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>
Revenues:		
Patient Service Revenue, Net	\$ 5,949,000	\$ 4,085,000
Air Medical Services	620,000	-
Communication Center Fees	338,000	-
Taxes, Net	7,166,000	1,807,000
Other Income	<u>194,000</u>	<u>113,000</u>
Total Revenues	<u>14,267,000</u>	<u>6,005,000</u>
Total Expenses	<u>11,953,000</u>	<u>6,012,000</u>
Increase (Decrease) in Net Assets	2,314,000	(7,000)
Net Assets - Beginning of Year	<u>4,423,000</u>	<u>4,430,000</u>
Net Assets - End of Year	<u>\$ 6,737,000</u>	<u>\$ 4,423,000</u>

Net fees for patient services increased \$1,864,000 or 46% from 2007 to 2008. The increase was due to the change in fiscal year end, higher number of transports and higher market rates for services billed. The average call volume for 2007 was 1,330 calls per month versus the average call volume of 1,540 per month for 2008. Air medical services and communication center services were initiated in 2008.

Property tax revenue increased due to an increase in the tax rate from \$0.03 per \$100 of valuation to \$0.10 per \$100 of valuation.

Total expenses for the District increased from \$6,012,000 in 2007 to \$11,953,000 in 2008. This is due to the change in fiscal year end, adding two trucks to our service, an increase in personnel due to the addition of the communication center services, professional fees, insurance, depreciation expense and increase in operating costs such as medical supplies, fuel, wages and utilities.

Capital Assets and Debt Activity

	<u>December 31, 2008</u>	<u>September 30, 2007</u>
Capital Assets:		
Land	\$ 694,000	\$ 374,000
Buildings and Improvements	4,965,000	1,539,000
Ambulances and Other Vehicles	2,289,000	1,948,000
Furnitures, Fixtures and Equipment	1,705,000	861,000
Construction in Progress	<u>1,440,000</u>	<u>188,000</u>
Total Gross Capital Assets	11,093,000	4,910,000
Less Accumulated Depreciation	<u>(2,298,000)</u>	<u>(2,338,000)</u>
Total Net Capital Assets	<u>\$ 8,795,000</u>	<u>\$ 2,572,000</u>
Debt:		
Wells Fargo Bank, N.A.	\$ 437,000	\$ 973,000
Kansas State Bank of Manhattan	175,000	-
Old National Bank	843,000	-
De Lage Landen Public Finance	<u>4,920,000</u>	<u>-</u>
Total Debt	<u>\$ 6,375,000</u>	<u>\$ 973,000</u>

During fiscal year 2008, the District purchased nine heart monitors for approximately \$328,000 that were financed through Kansas State Bank of Manhattan to be paid in equal monthly installments over a period of three years; six new ambulances and ten support vehicles for approximately \$1,221,000, partially financed through Old National Bank to be paid in equal monthly installments over a period of two years; and land, building and building improvements for approximately \$4,921,000 financed through De Lage Landen Public Finance, LLC to be paid in equal monthly installments over a period of 20 years. The communication center equipment and license were purchased for \$1,000,000 (not financed). Of the purchase price, \$800,000 was allocated to the value of the license. The license is not reported as a capital asset.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

- The District anticipates the completion of the new administration building in May 2009.
- The District anticipates the need to acquire an additional ambulance substation in the near future for the most northern portion of the district to accommodate the population growth. It is still unknown if this acquisition will be in 2009 or 2010.

* * * * *

This financial report is designed to provide a general overview of the Harris County Emergency Services District No. 1's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Jody Meads, Director of Emergency Medical Services, 1620 Isom St., Houston, Texas 77039.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF NET ASSETS
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008
AND THE YEAR ENDED SEPTEMBER 30, 2007

ASSETS		
	2008	2007
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,183,558	\$ 1,240,483
Patients Service Receivable, Less Allowance for Uncollectible Items of \$31,297,964 and \$18,715,073, Respectively	2,246,795	1,587,564
Property Taxes Receivable, Less Allowance for Uncollectible Items of \$98,541 and \$65,430, Respectively	7,213,425	257,689
Communication Center Services Receivable	100,143	-
Other Receivables and Prepaid Expenses	25,320	35,896
Total Current Assets	11,769,241	3,121,632
CAPITAL ASSETS, NET	8,794,765	2,571,996
OTHER ASSETS	800,000	-
TOTAL ASSETS	21,364,006	5,693,628
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	794,006	297,604
Notes Payable, Current Portion	765,355	535,753
Deferred Property Tax Revenue	7,528,948	-
Total Current Liabilities	9,088,309	833,357
LONG-TERM LIABILITIES		
Note Payable, Net of Current Portion	5,610,285	437,016
TOTAL LIABILITIES	14,698,594	1,270,373
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
NET ASSETS	\$ 6,665,412	\$ 4,423,255

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008
AND THE YEAR ENDED SEPTEMBER 30, 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Patients Service Revenue	\$ 26,764,074	\$ 18,348,863
Provisions for Uncollectible Accounts	<u>(20,814,819)</u>	<u>(14,263,776)</u>
Net Patient Service Revenue	5,949,255	4,085,087
Air Medical Services Fees	620,102	-
Communication Center Service Fees	337,478	-
Other Income	<u>101,035</u>	<u>46,359</u>
TOTAL OPERATING REVENUES	<u>7,007,870</u>	<u>4,131,446</u>
OPERATING EXPENSES:		
Salaries and Related Expenses	6,820,044	3,081,354
Program Expense	1,570,099	963,929
Depreciation	897,834	407,235
Occupancy	235,003	52,634
Insurance	686,666	352,952
Professional Fees	923,005	797,502
Other General and Administrative Expenses	<u>754,768</u>	<u>325,556</u>
TOTAL OPERATING EXPENSES	<u>11,887,419</u>	<u>5,981,162</u>
OPERATING LOSS	<u>(4,879,549)</u>	<u>(1,849,716)</u>
NON-OPERATING REVENUE (EXPENSE):		
Property Tax Revenue, Net	7,166,268	1,807,156
Interest Income	93,195	66,697
Interest Expense	<u>(66,757)</u>	<u>(31,039)</u>
Total Non-Operating Revenue, Net	<u>7,192,706</u>	<u>1,842,814</u>
INCREASE IN NET ASSETS	2,313,157	(6,902)
NET ASSETS, BEGINNING OF YEAR	<u>4,423,255</u>	<u>4,430,157</u>
NET ASSETS, END OF YEAR	<u><u>\$ 6,736,412</u></u>	<u><u>\$ 4,423,255</u></u>

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008
AND THE YEAR ENDED SEPTEMBER 30, 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients for Services	\$ 5,290,024	\$ 3,833,000
Cash Received from Air Medical Services and and Communication Center Services	857,437	-
Other Operating Cash Receipts	98,940	40,781
Cash Payments to Suppliers for Goods and Services	(3,729,372)	(2,770,179)
Cash Payments to Employees for Services	(6,751,140)	(2,851,148)
Net Cash Used in Operating Activities	(4,234,111)	(1,747,546)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITY:		
Cash Received from Property Taxes	7,739,480	1,854,304
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(7,120,603)	(788,908)
Acquisition of Other Assets	(800,000)	-
Borrowings under Notes Payable	6,087,550	580,000
Repayments under Notes Payable	(684,679)	(77,386)
Payments of Interest on Capital Debt	(66,757)	(31,039)
Net Cash Provided by Capital and Related Financing Activities	(2,584,489)	(317,333)
CASH FLOWS FROM INVESTING ACTIVITY:		
Interest Income	93,195	66,697
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,014,075	(143,878)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,240,483	1,384,361
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,254,558	\$ 1,240,483
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (4,879,549)	\$ (1,849,716)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	897,834	407,235
Changes in Assets and Liabilities:		
Patients Services Receivable	(659,231)	(252,087)
Air Medical and Communication Center Receivables	(100,143)	-
Other Receivables and Prepaid Expenses	10,576	(21,456)
Accounts Payable and Accrued Expenses	496,402	(31,522)
Net Cash Used in Operating Activities	\$ (4,234,111)	\$ (1,747,546)

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008
AND THE YEAR ENDED SEPTEMBER 30, 2007

	<u>2008</u>	<u>2007</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Disposition of Fully Depreciated Capital Assets	\$ <u>938,477</u>	\$ <u>-</u>
Capitalized Interest	\$ <u>99,627</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF ORGANIZATION

Harris County Emergency Services District #1 (the “District”) was created on May 4, 1991 by approval of the voters of North Harris County, Texas. The purpose of the District is to provide emergency ambulance services and medical aid, generally within the boundaries of the District in North Harris County. The District is not a component unit of another governmental entity.

The District is governed by a five member-board of commissioners elected by the residents of North Harris County. On May 15, 2007, the Texas State Legislature amended Section 775.0345 of the Health and Safety Code to require the governing body of a district be elected by the public. For the period ended December 31, 2008, the District’s five member Board of Commissioners ran unopposed and therefore the District did not hold an election in 2008.

The District’s operating budget is subject to approval by Harris County Commissioners’ Court. The District’s property tax levy of \$0.10 per \$100 of valuation was approved by the constituents of the District. The operations of the District are also supported by insurance and private patient billings for services rendered and monthly service fees for usage of its communication center.

On April 29, 2008, the Commissioners elected to change the District’s fiscal year end to a calendar year end effective December 31, 2008. The change in the District’s year end created a fifteen month reporting period for the current period.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Basis of Accounting

The District utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents. At December 31, 2008, the District’s cash and cash equivalents consisted of demand deposits, money market securities and a restricted escrow deposit.

Capital Assets

Capital assets are stated at cost; items costing less than \$5,000 are expensed when purchased. Depreciation is calculated using the straight-line method over estimated useful lives of 20 years for buildings, 10 years for improvements and 3 to 5 years for other depreciable assets. Costs of minor repairs and maintenance are charged to expense when incurred.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization of Interest Costs

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose.

Patients' Service Revenue Recognition

Patients' service revenue is reported at the estimate net realizable amounts from patients and third party payers. The District has agreements with third-party payers that provide for payments at amounts different from its established rates, primarily for Medicare and Medicaid discounted charges. Revenue under third party agreements is subjected to audit and retroactive adjustment. Provisions for estimated third-party settlements are provided in the period the related services are rendered.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. The principal operating revenues for the District are charges to patients for services. Operating expenses include the cost of operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Federal Income Tax

The District is a political subdivision of the State of Texas and is exempt from federal income taxes.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. Significant estimates include establishment of the allowance for doubtful accounts for patient service revenue and property taxes, and the recoverability and useful lives of long-lived assets.

NOTE 3 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the District's demand deposits with financial institutions as of December 31, 2008 and September 30, 2007 were \$1,620,843 and \$163,998, respectively, while total bank balances as of December 31, 2008 and September 30, 2007 equaled \$1,620,843 and \$269,837, respectively. Effective January 1, 2009, the District upgraded their accounting software system and any outstanding checks as of December 31, 2008 were recorded as accounts payable. Bank balances of \$250,000 (\$100,000 for 2007) were covered by federal depository insurance and \$973,891 and \$169,837 were covered by collateral pledged in the District's name as of December 31, 2008 and September 30, 2007, respectively. Cash on hand equaled \$7,500 and \$500 as of December 31, 2008 and September 30, 2007, respectively.

Restricted cash was \$71,004 as of December 31, 2008. This amount is the difference between the note payable issued to the District during the current period for the purchase of five ambulances (see Note 6) and the purchase price of the ambulances. These funds are being held in an escrow account and will be used to pay for modifications to the ambulances or to make payments on the note balance.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

The District is restricted by Texas state statute to investments which include obligations of, or guaranteed by government entities. As of December 31, 2008 and September 30, 2007, the District held government money-market securities in the amount of \$555,211 and \$871,134, respectively. The money market securities were obligations of government entities. These amounts are included in cash and cash equivalents on the statement of net assets.

An investment policy adopted by the District allows for investment in fully insured or collateralized certificates of deposit from a bank doing business in the state of Texas and under the terms of a written depository agreement with the bank, not to exceed one year to stated maturity. As of December 31, 2008, the District did not hold any certificates of deposit. At September 30, 2007, the District held collateralized certificates of deposit in the amount of \$204,851. This amount is included in cash and equivalents in the statement of net assets.

Credit risk is the possibility that the issuer of a security will fail to make timely payments of interest or principal. To minimize credit risk, the District's investment policy restricts investments of the portfolio into designated investments only. Market risk is the potential for a decline in market value generally due to, but not limited exclusively to, rising interest rates. The District manages its exposure to declines in fair value by limiting the maturity of its investments to one year.

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the fifteen months ended December 31, 2008 was as follows:

	Balance October 1, 2007	Increase	Decrease	Balance December 31, 2008
Not Depreciated:				
Land	\$ 374,262	\$ 319,542	\$ -	\$ 693,804
Construction in Progress	188,336	1,251,653		1,439,989
 Total Not Depreciated	 562,598	 1,571,195	 -	 2,133,793
Other Capital Assets:				
Buildings and Improvements	\$ 1,539,306	\$ 3,425,384	\$ -	\$ 4,964,690
Ambulances and Other Vehicles	1,947,554	1,280,309	938,477	2,289,386
Furniture and Equipment	860,833	843,715	-	1,704,548
 Total Depreciated	 4,347,693	 5,549,408	 938,477	 8,958,624
Less Accumulated Depreciation:				
Buildings and Improvements	362,221	123,626	-	485,847
Ambulances and Other Vehicles	1,265,145	526,873	938,477	853,541
Furniture and Equipment	710,929	247,335	-	958,264
 Total Accumulated Depreciation	 2,338,295	 897,834	 938,477	 2,297,652
 Net Capital Assets	 \$ 2,571,996	 \$ 6,222,769	 \$ -	 \$ 8,794,765

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital assets activities for the year ended September 30, 2007 was as follows:

	Balance October 1, 2006	Increase	Decrease	Balance September 30, 2007
Not Depreciated:				
Land	\$ 234,963	\$ 139,299	\$ -	\$ 374,262
Construction in Progress	-	188,336	-	188,336
Total Not Depreciated	234,963	327,635	-	562,598
Other Capital Assets:				
Buildings and Improvements	\$ 1,539,306	\$ -	-	\$ 1,539,306
Ambulances and Other Vehicles	1,511,282	436,272	-	1,947,554
Furniture and Equipment	835,832	25,001	-	860,833
Total Depreciated	3,886,420	461,273	-	4,347,693
Less Accumulated Depreciation:				
Buildings and Improvements	281,804	80,417	-	362,221
Ambulances and Other Vehicles	1,014,967	250,178	-	1,265,145
Furniture and Equipment	634,289	76,640	-	710,929
Total Accumulated Depreciation	1,931,060	407,235	-	2,338,295
Net Capital Assets	\$ 2,190,323	\$ 381,673	\$ -	\$ 2,571,996

NOTE 5 – OTHER ASSETS

On March 31, 2008, the District acquired an emergency communication center. The communication center receives emergency calls and dispatches the appropriate emergency services team. The District has contracts with local volunteer fire departments, as well as a private emergency service helicopter company, under which the District receives monthly service fees for the use of its communication center. The District acquired the communication center license and equipment for \$1,000,000. Of the purchase price, \$800,000 was allocated to the license and is recorded in the statement of net assets as other assets. The remaining \$200,000 is recorded in capital assets. The District evaluates intangible assets for impairment annually. Management believes there has been no impairment to the communication license, and accordingly no provision for impairment has been made.

NOTE 6 – NOTES PAYABLE

During fiscal year 2005, the District acquired a note payable with Wells Fargo Bank, N.A. (“Wells Fargo”) of \$500,000, with an interest rate of 5.375%, for the purchase of land and the construction of two buildings. Annual payments of approximately \$41,400 are due on April 1 of each year through 2018. On April 1, 2019, a lump-sum payment of approximately \$219,000 is due for the remaining balance of the note. At December 31, 2008 and September 30, 2007, the balance on this note was \$437,016 and \$454,019, respectively.

On January 30, 2007, the District entered into a promissory note with an individual for the purchase of land. The promissory note of \$105,000, bearing no interest, was due in monthly payments of \$8,750 beginning March 1, 2007. The balance of the note at September 30, 2007 was \$43,750 and was paid off prior to December 31, 2008.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – NOTES PAYABLE (CONTINUED)

On July 11, 2007, the District acquired a note payable with Wells Fargo of \$475,000, with an interest rate of 5.95%, for the purchase of four ambulances. The note was payable in one lump-sum payment and was paid off March 26, 2008.

On September 14, 2007, the District acquired a note payable with Kansas State Bank of Manhattan of \$288,742, with an interest rate of 6.164%, for the purchase of nine cardiac monitors. The note is due in monthly payments of approximately \$8,800, including accrued interest, beginning October 25, 2007 through September 25, 2010. The monitors are pledged as collateral for the note. The balance of the note at December 31, 2008 was \$174,867.

On August 5, 2008, the District acquired a note payable with De Lage Landen Public Finance, LLC of \$4,920,533, with an interest rate of 4.987%, for the purchase of land, a building and building improvements. An initial payment of \$111,000 of interest is due in January 2009, followed by monthly payments, including accrued interest, of approximately \$39,800 beginning February 15, 2009 through June 15, 2018, and approximately \$36,900 beginning July 15, 2008 through December 15, 2023. The note carries a prepayment penalty for the first five years. Future tax receipts are pledged as collateral for the note. The balance of the note at December 31, 2008 was \$4,920,533.

On November 5, 2008, the District acquired a note payable with Old National Bank of \$878,275, with an interest rate of 4.47%, for the purchase of five ambulances. The note is due in monthly payments, including accrued interest, of approximately \$38,000 beginning January 1, 2009 through December 1, 2010. The ambulances are pledged as collateral for the note. The balance of the note at December 31, 2008 was \$843,224.

Future annual principal payments at December 31, 2008 are as follows:

<u>Years Ending December 31,</u>	
2009	\$ 765,355
2010	757,774
2011	281,979
2012	296,420
2013	311,601
Thereafter	<u>3,962,511</u>
Total future principal payments	\$ <u>6,375,640</u>

NOTE 7 – PROPERTY TAX

The District's property tax is levied each October 1st on the assessed value listed as of the prior January 1 for all real and personal property located in the tax area of the District. Taxes are due on the receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. These property tax receivables are presented on the statement of net assets with offsetting deferred revenue to reflect amounts not available as of December 31, 2008.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – PROPERTY TAX (CONTINUED)

For the 2008 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an original assessment of \$7,528,948 on the assessment valuation of \$7,528,912,662. As of December 31, 2008, \$751,632 of the 2008 assessment has been collected, and is recorded in deferred property tax revenue in the statement of net assets.

For the 2007 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an original assessment of \$7,084,487 on the assessment valuation of \$7,084,403,086. As of December 31, 2008, \$6,797,223 of the 2007 assessment has been collected.

For the 2006 tax year, the District levied an assessment of \$0.02934 per \$100 of assessed valuation, resulting in an original assessment of \$1,823,825 on the assessment valuation of \$6,215,895,218. As of December 31, 2008, the 2006 assessment has been fully collected.

Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The District received approximately 52% and 30% of its revenue from property taxes in the periods ended December 31, 2008 and September 30, 2007, respectively.

NOTE 8 – EMPLOYEE BENEFIT PLAN

Effective October 1, 2002, the District implemented a deferred compensation plan covering all employees. Employees are eligible to participate after one year of service and attaining the age of 21. Contributions are matched on a discretionary basis. For the periods ended December 31, 2008 and September 30, 2007, the District elected to match contributions by 5% and contributed approximately \$118,000 and \$38,000, respectively. The employer portion becomes vested 20% after one year, with an additional 20% per year until fully vested.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; natural disasters and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 10 – COMMITMENTS

The District has entered into a contract for the construction of a new administration office and communication center. Commitments remaining under the contract were approximately \$700,000 at December 31, 2008.

NOTE 11 – CONTINGENCIES

The District has been named a defendant in certain lawsuits alleging damages of underdetermined amounts. In the best judgment of the District's management, the outcome of any present legal proceedings will not have a materially adverse effect on the accompanying financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12– FUTURE ACCOUNTING PRONOUNCEMENTS

In June 2007, GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets was issued. The Statement provides needed guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for periods beginning after June 15, 2009. Retroactive reporting is required in some cases. The District expects to reclassify the communication center license as a capital asset upon adoption of this statement.