

**HARRIS COUNTY EMERGENCY SERVICES
DISTRICT #1**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
AND THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008

GAINER DONNELLY & DESROCHES

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1

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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, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended December 31, 2009 and the fifteen months ended December 31, 2008. 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, 2009 and December 31, 2008, and the changes in its net assets and its cash flows for the year ended December 31, 2009 and the fifteen months ended December 31, 2008, 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 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Harris County Emergency Services District #1's (the "District") financial statements provides an overview of the District's financial performance for the year ended December 31, 2009. It includes comparative data for the fifteen months ended December 31, 2008 with a brief explanation for significant changes between the periods. 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

- In 2009, the District completed construction of its new headquarters located at 2800 Aldine Bender Road, Houston, Texas 77032. As a result of the new building, the District can maintain administration, operations and communications within one facility.
- In October 2009, the District began operation of the Northeast Houston Urgent Care Medical Clinic.
- Also in 2009, the District entered into an agreement to purchase a new computer aided dispatch system (CAD) to improve the capabilities of the District's communication center. Installation of the CAD is expected to be completed in the second quarter of 2010.
- PHI, Inc., the District's former partner for its air medical program, opted to terminate its agreement with the District to provide helicopter transportation to the District's emergency care patients. PHI cited large deficits for the program and a payor mix which did not lend itself to continued operation of the program.

ECONOMIC FACTORS

The national economic difficulties negatively impacted the District's revenue, primarily due to fewer individuals with private insurance.

In addition, there continues to be strong competition for qualified employees in emergency medical services. As a result, personnel costs involving new hires and turnover is a concern. However, turnover appears to be leveling off and the District plans to implement policies and programs to foster employee longevity.

In conclusion, management believes that while the District will be challenged by reimbursement issues, competitive labor cost, and emerging local competition, the District will continue to build its unrestricted cash reserves and reflect positive growth and an increase in net assets for the year ended December 31, 2010. The District adopted an operating budget in 2009 for the year ended December 31, 2010 with projected revenues of approximately \$14 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 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, 2009 | December 31, 2008 | Increase (Decrease) |
|---------------------------------------|----------------------|----------------------|------------------------|
| Assets: | | | |
| Current Assets | \$ 11,829,000 | \$ 11,840,000 | \$ (11,000) |
| Capital Assets, Net | 9,855,000 | 8,795,000 | 1,060,000 |
| Other Assets | 800,000 | 800,000 | - |
| Total Assets | 22,484,000 | 21,435,000 | 1,049,000 |
| Liabilities: | | | |
| Accounts Payable and Accrued Expenses | \$ 1,029,000 | \$ 795,000 | \$ 234,000 |
| Notes Payable - Current | 758,000 | 765,000 | (7,000) |
| Deferred Property Tax Revenue | 8,361,000 | 7,529,000 | 832,000 |
| Notes Payable - Long Term | 4,852,000 | 5,610,000 | (758,000) |
| Total Liabilities | 15,000,000 | 14,699,000 | 301,000 |
| Total Net Assets | \$ 7,484,000 | \$ 6,736,000 | \$ 748,000 |

For the year ended December 31, 2009, cash and cash equivalents decreased by \$651,000 or 30%. This decrease was due to the construction on the new building as well as the purchase of furniture and equipment for the new urgent care clinic and the communication center.

Taxes receivable increased approximately \$832,000 due to the increase in property value assessments by the Harris County Appraisal District of approximately 5% for the 2009 tax year. The District's tax rate of \$0.10 cents per \$100 remained consistent for the 2009 tax levy year. 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.

Statement of Activities

The Statement of Activities presents the operating results of the District. The following table reflects condensed information (rounded to the nearest thousand) on the District's operations:

| | December 31, 2009 | Fifteen Months December 31, 2008 |
|--|----------------------|--|
| Revenues: | | |
| Patient Service Revenue, Net | \$ 5,183,000 | \$ 5,949,000 |
| Air Medical Services | 326,000 | 620,000 |
| Communication Center Fees | 356,000 | 338,000 |
| Urgent Care Clinic | 108,000 | - |
| Taxes, Net | 7,808,000 | 7,166,000 |
| Other Income | 103,000 | 194,000 |
| Total Revenues | 13,884,000 | 14,267,000 |
| Total Expenses | 13,136,000 | 11,954,000 |
| Increase in Net Assets | 748,000 | 2,313,000 |
| Net Assets - Beginning of Year (Period) | 6,736,000 | 4,423,000 |
| Net Assets - End of Year (Period) | \$ 7,484,000 | \$ 6,736,000 |

Net fees for patient services decreased \$766,000 or 13% from 2008 to 2009. The decrease was due to the current period including twelve months of activity and the prior period including fifteen months of activity.

Property tax revenue increased due to an increase in property values. The District's tax rate of \$0.10 per \$100 valuation remained consistent.

Total expenses increased from \$11,954,000 in 2008 to \$13,136,000 in 2009. This is due to an increase in interest, depreciation and repairs and maintenance expense associated with the new building and an increase in salaries and related expenses due to additional personnel.

Capital Assets and Debt Activity

| | December 31, 2009 | December 31, 2008 |
|-----------------------------------|----------------------|----------------------|
| Capital Assets: | | |
| Land | \$ 694,000 | \$ 694,000 |
| Buildings and Improvements | 7,486,000 | 4,965,000 |
| Ambulances and Other Vehicles | 2,498,000 | 2,289,000 |
| Furniture, Fixtures and Equipment | 2,757,000 | 1,705,000 |
| Construction in Progress | - | 1,440,000 |
| | <u>13,435,000</u> | <u>11,093,000</u> |
| Total Gross Capital Assets | | |
| Less Accumulated Depreciation | <u>(3,580,000)</u> | <u>(2,298,000)</u> |
| Total Net Capital Assets | <u>\$ 9,855,000</u> | <u>\$ 8,795,000</u> |
| Wells Fargo Bank, N.A. | \$ 419,000 | \$ 437,000 |
| Kansas State Bank of Manhattan | 77,000 | 175,000 |
| Old National Bank | 412,000 | 843,000 |
| De Lage Landen Public Finance | <u>4,702,000</u> | <u>4,920,000</u> |
| Total Debt | <u>\$ 5,610,000</u> | <u>\$ 6,375,000</u> |

The construction of the new building was complete in July 2009 which accounts for the increase in buildings and improvements. Additional furniture and equipment was needed to equip the new urgent care clinic and furnish the new building.

Total debt was reduced by \$765,000 during 2009 and no additional debt was acquired during 2009. The Kansas State Bank and Old National Bank notes are expected to be paid off during 2010.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

- The District anticipates the need for two additional ambulance stations. The purchase and construction of these stations likely will occur in 2010.
- The District anticipates the completion and operation of its new CAD in the second quarter of 2010.
- The District is exploring the possibilities of holding an election on levying a sales and use tax within the boundaries of the District. This election may occur in November 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. Jeremy Hyde, Interim Executive Director, 2800 Aldine Bender Rd., Houston, TX 77032.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND
DECEMBER 31, 2008

| ASSETS | | |
|---------------------------------------|--------------|--------------|
| | 2009 | 2008 |
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | \$ 1,532,970 | \$ 2,254,558 |
| Patient Services Receivable, Net | 2,275,492 | 2,246,795 |
| Property Taxes Receivable, Net | 7,873,377 | 7,213,425 |
| Other Receivables | 139,840 | 109,724 |
| Prepaid Expenses | 7,433 | 15,739 |
| Total Current Assets | 11,829,112 | 11,840,241 |
| CAPITAL ASSETS, NET | 9,855,377 | 8,794,765 |
| OTHER ASSETS | 800,000 | 800,000 |
| TOTAL ASSETS | 22,484,489 | 21,435,006 |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable and Accrued Expenses | 1,002,612 | 676,612 |
| Interest Payable | 26,730 | 117,394 |
| Notes Payable, Current Portion | 757,773 | 765,355 |
| Deferred Property Tax Revenue | 8,360,773 | 7,528,948 |
| Total Current Liabilities | 10,147,888 | 9,088,309 |
| LONG-TERM LIABILITIES: | | |
| Note Payable, Net of Current Portion | 4,852,510 | 5,610,285 |
| TOTAL LIABILITIES | 15,000,398 | 14,698,594 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS | | |
| NET ASSETS | \$ 7,484,091 | \$ 6,736,412 |

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 YEAR ENDED DECEMBER 31, 2009
AND FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| OPERATING REVENUES: | | |
| Patient Services Revenue | \$ 23,319,880 | \$ 26,764,074 |
| Provision for Uncollectible Accounts | <u>(18,136,951)</u> | <u>(20,814,819)</u> |
| Net Patient Services Revenue | 5,182,929 | 5,949,255 |
| Air Medical Services Fees | 326,422 | 620,102 |
| Communication Center Service Fees | 355,463 | 337,478 |
| Urgent Care Clinic Service Fees | 108,226 | - |
| Other Income | <u>72,056</u> | <u>101,035</u> |
| TOTAL OPERATING REVENUES | <u>6,045,096</u> | <u>7,007,870</u> |
| OPERATING EXPENSES: | | |
| Salaries and Related Expenses | 7,130,677 | 6,937,540 |
| Program Expense | 1,419,761 | 1,570,099 |
| Urgent Care Clinic Expenses | 95,891 | - |
| Depreciation | 1,291,152 | 897,834 |
| Occupancy | 406,031 | 235,003 |
| Insurance | 634,191 | 686,666 |
| Professional Fees | 1,072,277 | 923,005 |
| Other General and Administrative Expenses | <u>785,687</u> | <u>637,272</u> |
| TOTAL OPERATING EXPENSES | <u>12,835,667</u> | <u>11,887,419</u> |
| OPERATING LOSS | <u>(6,790,571)</u> | <u>(4,879,549)</u> |
| NON-OPERATING REVENUE (EXPENSE): | | |
| Property Tax Revenue, Net | 7,807,966 | 7,166,268 |
| Interest Income | 30,534 | 93,195 |
| Interest Expense | <u>(300,250)</u> | <u>(66,757)</u> |
| Total Non-Operating Revenue, Net | <u>7,538,250</u> | <u>7,192,706</u> |
| INCREASE IN NET ASSETS | 747,679 | 2,313,157 |
| NET ASSETS, BEGINNING OF YEAR (PERIOD) | <u>6,736,412</u> | <u>4,423,255</u> |
| NET ASSETS, END OF YEAR (PERIOD) | <u>\$ 7,484,091</u> | <u>\$ 6,736,412</u> |

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

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
AND FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash Received from Patients for Services | \$ 5,154,232 | \$ 5,290,024 |
| Cash Received from Air Medical Services and and Communication Center Services | 745,036 | 857,437 |
| Cash Received from Urgent Care Clinic Services | 12,172 | - |
| Other Operating Cash Receipts | 74,843 | 98,940 |
| Cash Payments to Suppliers for Goods and Services | (4,201,766) | (3,729,372) |
| Cash Payments to and on Behalf of Employees for Services | <u>(7,008,443)</u> | <u>(6,751,140)</u> |
| Net Cash Used in Operating Activities | <u>(5,223,926)</u> | <u>(4,234,111)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITY: | | |
| Cash Received from Property Taxes | 7,979,839 | 7,739,480 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition of Capital Assets | (2,351,764) | (7,120,603) |
| Acquisition of Other Assets | - | (800,000) |
| Borrowings under Notes Payable | - | 6,087,550 |
| Repayments under Notes Payable | (765,357) | (684,679) |
| Payments of Interest on Capital Debt | <u>(390,914)</u> | <u>(66,757)</u> |
| Net Cash Used In Capital and Related Financing Activities | <u>(3,508,035)</u> | <u>(2,584,489)</u> |
| CASH FLOWS FROM INVESTING ACTIVITY: | | |
| Interest Income | 30,534 | 93,195 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (721,588) | 1,014,075 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (PERIOD) | <u>2,254,558</u> | <u>1,240,483</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR (PERIOD) | <u>\$ 1,532,970</u> | <u>\$ 2,254,558</u> |
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating Loss | \$ (6,790,571) | \$ (4,879,549) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities | | |
| Depreciation | 1,291,152 | 897,834 |
| Changes in Assets and Liabilities: | | |
| Patients Service Receivable | (28,697) | (659,231) |
| Other Receivables | (30,116) | (100,143) |
| Prepaid Expenses | 8,306 | 10,576 |
| Accounts Payable and Accrued Expenses | <u>326,000</u> | <u>496,402</u> |
| Net Cash Used in Operating Activities | <u>\$ (5,223,926)</u> | <u>\$ (4,234,111)</u> |

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

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2009
 AND FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2008

| | <u>2009</u> | <u>2008</u> |
|--|-----------------|-------------------|
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Disposition of Fully Depreciated Capital Assets | \$ <u>8,950</u> | \$ <u>938,477</u> |
| Capitalized Interest | \$ <u>-</u> | \$ <u>99,627</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. Commissioner terms are two years, therefore the year ended December 31, 2009 was not an election year.

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 period then ended.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) standards, 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, 2009, the District’s cash and cash equivalents consisted of demand deposits and 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.

Patient Services and Urgent Care Clinic Revenue Recognition

Patient services revenue and urgent care clinic revenue is reported at the estimated 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 the realizability of receivables and revenue subject to third party payor contractual adjustments, the collectibility of property taxes and the recoverability and useful lives of long-lived assets.

Subsequent Events

The District has evaluated subsequent events through the time the financial statements were available for issuance on March 30, 2010. No matters were identified affecting the financial statements.

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

NOTE 3 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the District’s demand deposits with financial institutions as of December 31, 2009 and 2008 were \$1,532,270 and \$1,620,843, respectively, while total bank balances as of December 31, 2009 and December 31, 2008 equaled \$1,555,403 and \$1,620,843, 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 were covered by federal depository insurance and \$1,001,789 and \$973,891 were covered by collateral pledged in the District’s name as of December 31, 2009 and December 31, 2008, respectively. At December 31, 2009, the District’s deposits in non-interest bearing accounts were fully insured by the FDIC under the Transaction Account Guarantee Program. Management believes any credit risk is low due to the overall financial strength of the financial institutions. Cash on hand equaled \$700 and \$7,500 as of December 31, 2009 and December 31, 2008, respectively.

One of the financial institutions that the District uses opted out of the Transaction Account Guarantee Program effective January 1, 2010. As a result, the insurance limit was reduced to \$250,000 for all deposits with the financial institution.

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 period ended December 31, 2008 for the purchase of five ambulances (see Note 6) and the purchase price of the ambulances. These funds were being held in an escrow account and were used make payments on the note balance during the year ended December 31, 2009.

The District is restricted by Texas state statute to investments which include obligations of, or guaranteed by, government entities. As of December 31, 2008, the District held government money-market securities in the amount of \$555,211. The money market securities were obligations of government entities. These amounts are included in cash and cash equivalents on the statement of net assets. No money-market securities were held as of December 31, 2009.

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. The District did not hold any investments as of December 31, 2009 and 2008.

NOTE 4 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables consist of the following at December 31:

| | 2009 | 2008 |
|--------------------------------------|---------------|---------------|
| Patient Services Receivable | \$ 44,424,031 | \$ 33,544,759 |
| Less Allowance for Doubtful Accounts | (42,148,539) | (31,297,964) |
| | \$ 2,275,492 | \$ 2,246,795 |
| Property Tax Receivable | 8,202,486 | 7,311,966 |
| Less Allowance for Doubtful Accounts | (329,109) | (98,541) |
| | \$ 7,873,377 | \$ 7,213,425 |

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

NOTE 4 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES (CONTINUED)

Other receivables consist of the following at December 31:

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| Other Receivables: | | |
| Communication Center Services Receivable | \$ 36,992 | \$ 100,143 |
| Urgent Care Clinic Receivable | 96,054 | - |
| Employee Receivable | <u>6,794</u> | <u>9,581</u> |
| Total Other Receivables | <u>\$ 139,840</u> | <u>\$ 109,724</u> |

Payables consist of the following at December 31:

| | <u>2009</u> | <u>2008</u> |
|------------------|---------------------|-------------------|
| Vendor Payable | \$ 740,454 | \$ 526,348 |
| Salaries Payable | 177,252 | 55,018 |
| Benefits Payable | <u>84,906</u> | <u>95,246</u> |
| | <u>\$ 1,002,612</u> | <u>\$ 676,612</u> |

NOTE 5 – CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2009 were as follows:

| | Balance January 1, 2009 | Increase | Decrease | Balance December 31, 2009 |
|--------------------------------|-------------------------------|---------------------|---------------------|---------------------------------|
| Not Depreciated: | | | | |
| Land | \$ 693,804 | \$ - | \$ - | \$ 693,804 |
| Construction in Progress | <u>1,439,989</u> | <u>1,081,551</u> | <u>2,521,540</u> | <u>-</u> |
| Total Not Depreciated | <u>2,133,793</u> | <u>1,081,551</u> | <u>2,521,540</u> | <u>693,804</u> |
| Other Capital Assets: | | | | |
| Buildings and Improvements | \$ 4,964,690 | \$ 2,521,540 | \$ - | \$ 7,486,230 |
| Ambulances and Other Vehicles | 2,289,386 | 208,840 | - | 2,498,226 |
| Furniture and Equipment | <u>1,704,548</u> | <u>1,061,373</u> | <u>8,950</u> | <u>2,756,971</u> |
| Total Depreciated | <u>8,958,624</u> | <u>3,791,753</u> | <u>8,950</u> | <u>12,741,427</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | \$ 485,847 | \$ 314,428 | \$ - | \$ 800,275 |
| Ambulances and Other Vehicles | 853,541 | 641,648 | - | 1,495,189 |
| Furniture and Equipment | <u>958,264</u> | <u>335,076</u> | <u>8,950</u> | <u>1,284,390</u> |
| Total Accumulated Depreciation | <u>2,297,652</u> | <u>1,291,152</u> | <u>8,950</u> | <u>3,579,854</u> |
| Net Capital Assets | <u>\$ 8,794,765</u> | <u>\$ 3,582,152</u> | <u>\$ 2,521,540</u> | <u>\$ 9,855,377</u> |

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

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital assets activities for the fifteen months ended December 31, 2008 were 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 | <u>562,598</u> | <u>1,571,195</u> | <u>-</u> | <u>2,133,793</u> |
| 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 | <u>4,347,693</u> | <u>5,549,408</u> | <u>938,477</u> | <u>8,958,624</u> |
| 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 | <u>2,338,295</u> | <u>897,834</u> | <u>938,477</u> | <u>2,297,652</u> |
| Net Capital Assets | <u>\$ 2,571,996</u> | <u>\$ 6,222,769</u> | <u>\$ -</u> | <u>\$ 8,794,765</u> |

NOTE 6 – 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 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 7 – 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 May 10 of each year through 2018. On May 10, 2019, a lump-sum payment of approximately \$219,000 is due for the remaining balance of the note. At December 31, 2009 and December 31, 2008, the balance on this note was \$419,098 and \$437,016, respectively.

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

NOTE 7 – NOTES PAYABLE (CONTINUED)

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, 2009 and 2008 was \$77,252 and \$174,867, respectively.

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 was 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, 2018 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, 2009 and 2008 was \$4,701,652 and \$4,920,533, respectively.

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, 2009 and 2008 was \$412,281 and \$843,224, respectively.

The promissory note for land and the note payable to Wells Fargo for the purchase of ambulances were paid off as of December 31, 2008, as prescribed by the respective note terms.

Notes payable activities for the year ended December 31, 2009 were as follows:

| | Balance January 1, 2009 | Increase | Decrease | Balance December 31, 2009 |
|---|-------------------------------|-------------|-------------------|---------------------------------|
| Wells Fargo Note Payable for Land | \$ 437,016 | \$ - | \$ 17,918 | \$ 419,098 |
| Kansas State Bank of Manhattan Note Payable | 174,867 | - | 97,615 | 77,252 |
| De Lage Landen Public Finance Note Payable | 4,920,533 | - | 218,881 | 4,701,652 |
| Old National Bank Note Payable | <u>843,224</u> | <u>-</u> | <u>430,943</u> | <u>412,281</u> |
| Total Notes Payable | <u>\$ 6,375,640</u> | <u>\$ -</u> | <u>\$ 765,357</u> | <u>\$ 5,610,283</u> |

Notes payable activities for the fifteen months ended December 31, 2008 were as follows:

| | Balance October 1, 2007 | Increase | Decrease | Balance December 31, 2008 |
|---|-------------------------------|---------------------|-------------------|---------------------------------|
| Wells Fargo Note Payable for Land | \$ 454,019 | \$ - | \$ 17,003 | \$ 437,016 |
| Promissory Note for Land | 43,750 | - | 43,750 | - |
| Wells Fargo Note Payable for Ambulances | 475,000 | - | 475,000 | - |
| Kansas State Bank of Manhattan Note Payable | 288,742 | - | 113,875 | 174,867 |
| De Lage Landen Public Finance Note Payable | - | 4,920,533 | - | 4,920,533 |
| Old National Bank Note Payable | <u>-</u> | <u>878,275</u> | <u>35,051</u> | <u>843,224</u> |
| Total Notes Payable | <u>\$ 1,261,511</u> | <u>\$ 5,798,808</u> | <u>\$ 684,679</u> | <u>\$ 6,375,640</u> |

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

NOTE 7 – NOTES PAYABLE (CONTINUED)

Future annual principal payments at December 31, 2009 are as follows:

| <u>Years Ending December 31,</u> | | |
|--------------------------------------|----|-------------------------|
| 2010 | \$ | 757,773 |
| 2011 | | 281,979 |
| 2012 | | 296,420 |
| 2013 | | 311,601 |
| 2014 | | 327,561 |
| Thereafter | | <u>3,634,949</u> |
| Total future principal payments | \$ | <u><u>5,610,283</u></u> |

NOTE 8 – 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, 2009 and 2008. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2009 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an original assessment of \$8,360,773 on the assessment valuation of approximately \$8,360,773,000. As of December 31, 2009, \$751,632 of the 2009 assessment has been collected. The current assessed value is preliminary and the District expects that the tax collector will adjust values as protested value and additional properties are identified. Revenue recognition for the 2009 assessment has been fully deferred to 2010.

For the 2008 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an adjusted assessment of \$7,978,681 on the assessment valuation of \$7,978,282,879. As of December 31, 2009, \$7,684,913 of the 2008 assessment has been collected.

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, 2009, \$6,946,872 of the 2007 assessment has been collected.

Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The District received approximately 54% and 52% of its revenue from property taxes in the periods ended December 31, 2009 and December 31, 2008, respectively.

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

NOTE 9 – 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 year and period ended December 31, 2009 and December 31, 2008, the District elected to match contributions by 5% and contributed approximately \$140,282 and \$117,496, respectively. The employer portion becomes vested 20% after one year, with an additional 20% per year until fully vested.

NOTE 10 – 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 11 – CONTINGENCIES

The District has been named a defendant in certain lawsuits alleging damages of undetermined 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.

NOTE 12 – FUTURE ACCOUNTING PRONOUNCEMENTS

Effective for periods beginning after June 15, 2009, certain intangible assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period shall be classified as capital assets.

Effective for periods beginning after June 15, 2010, governmental entities are required to identify amounts that are considered nonspendable and provide additional classifications for amounts that are restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Governmental entities are also required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

District management has not yet determined the impact that implementation of these future accounting pronouncements issued by GASB will have on the District's financial statements.