

**HARRIS COUNTY EMERGENCY SERVICES
DISTRICT #1**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, 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 29, 2011

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, 2010. It includes comparative data for the year ended December 31, 2009 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 May 2010, the District appointed Jeremy Hyde as the new Executive Director.
- In May 2010, the District approved the creation of a non-profit corporation to take over the day to day operations of the District. The Harris County Emergency Corps ("HCEC") was created on June 10, 2010. The District provided an initial deposit to fund operations of HCEC totaling \$740,000.
- In October 2010, the District entered into a contract with HCEC to transfer operational responsibility of emergency medical services from the District to HCEC. Transfer of responsibility will occur in June 2011.

GENERAL ECONOMIC FACTORS

The general economic climate continues to be of concern to the District, specifically in regards to property values and the number of individuals covered under private health insurance. In addition, rising fuel costs created additional strain on the District's financial outlook. The District's management eliminated unnecessary and/or redundant employee positions and discontinued operation of the Clinic to mitigate the effect of these economic factors.

2010 – YEAR IN REVIEW

The following is a review of the significant events which occurred during 2010.

Closing of the Clinic

In April 2010, management determined that the Clinic (which opened during 2009) was not generating the level of revenue required to cover its costs. Due to the demographics of the surrounding area, many of the patients that visited the Clinic did not have health insurance and were unable to pay for services. The highest paid professionals in the Clinic, including the mid-level practitioners and nurses, were displaced. The paramedics who worked in the Clinic were reassigned to the field, and the reception staff was reassigned to administrative duties within the District.

Compliance with Medicare and Insurance Billing Practices

Prior to 2010, the District relied heavily on its third-party medical biller to ensure proper compliance with billing practices. For increased assurance, the District appointed an employee to focus solely on reviewing files for proper compliance.

Ambulances

The Board of Commissioners voted to remount three of the District's ambulances on new chassis. Remounting current ambulances is more cost effective than purchasing new ambulances. Going forward, management intends to standardize the ambulance fleet to increase cost efficiencies for repairs and maintenance expenditures.

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, <u>2010</u>	December 31, <u>2009</u>	Increase (Decrease)
Assets:			
Current Assets	\$ 11,844,000	\$ 11,829,000	\$ 15,000
Capital Assets, Net	9,133,000	9,855,000	(722,000)
Other Assets	<u>800,000</u>	<u>800,000</u>	<u>-</u>
Total Assets	<u>21,777,000</u>	<u>22,484,000</u>	<u>(707,000)</u>
Liabilities:			
Accounts Payable and Accrued Expenses	\$ 691,000	\$ 1,029,000	\$ (338,000)
Notes Payable - Current	282,000	758,000	(476,000)
Deferred Property Tax Revenue	8,081,000	8,361,000	(280,000)
Notes Payable - Long Term	<u>4,571,000</u>	<u>4,852,000</u>	<u>(281,000)</u>
Total Liabilities	<u>13,625,000</u>	<u>15,000,000</u>	<u>(1,375,000)</u>
Total Net Assets	<u>\$ 8,152,000</u>	<u>\$ 7,484,000</u>	<u>\$ 668,000</u>

At December 31, 2010, cash and cash equivalents totaled approximately \$2,200,000, representing an increase from December 31, 2009 of approximately \$725,000 or 47%. This increase was primarily due to an increase in collections of patient service revenue and property taxes, as well as a reduction in capital expenditures.

Taxes receivable decreased approximately \$898,000 due to a decrease in property value assessments by the Harris County Appraisal District for the 2010 tax year (to be collected in fiscal 2011). The District's tax rate of \$0.10 cents per \$100 remained consistent for the 2010 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.

In 2010, the District advanced the Harris County Emergency Corp \$740,000.

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, 2010	December 31, 2009
Revenues:		
Patient Service Revenue, Net	\$ 5,210,000	\$ 5,183,000
Air Medical Services	-	326,000
Communication Center Fees	248,000	356,000
Urgent Care Clinic	37,000	108,000
Taxes, Net	8,270,000	7,808,000
Other Income	105,000	103,000
	<u>13,870,000</u>	<u>13,884,000</u>
Total Revenues		
	<u>13,870,000</u>	<u>13,884,000</u>
Total Expenses	<u>13,202,000</u>	<u>13,136,000</u>
Increase in Net Assets	668,000	748,000
Net Assets - Beginning of Year	<u>7,484,000</u>	<u>6,736,000</u>
Net Assets - End of Year	<u>\$ 8,152,000</u>	<u>\$ 7,484,000</u>

Net fees for patient services remained consistent from 2009 to 2010. Property tax revenue increased due to an increase in property values of approximately 5% for the 2009 tax year (collected in fiscal 2010). The District's tax rate of \$0.10 per \$100 valuation remained consistent. Total expenses remained consistent.

Capital Assets and Debt Activity

	December 31, 2010	December 31, 2009
Capital Assets:		
Land	\$ 694,000	\$ 694,000
Buildings and Improvements	7,486,000	7,486,000
Ambulances and Other Vehicles	3,180,000	2,498,000
Furniture, Fixtures and Equipment	1,839,000	2,757,000
	<u>13,199,000</u>	<u>13,435,000</u>
Total Gross Capital Assets		
	<u>13,199,000</u>	<u>13,435,000</u>
Less Accumulated Depreciation	<u>(4,066,000)</u>	<u>(3,580,000)</u>
Total Net Capital Assets	<u>\$ 9,133,000</u>	<u>\$ 9,855,000</u>
Wells Fargo Bank, N.A.	\$ 400,000	\$ 419,000
Kansas State Bank of Manhattan	-	77,000
Old National Bank	-	412,000
De Lage Landen Public Finance	4,453,000	4,702,000
	<u>4,853,000</u>	<u>4,702,000</u>
Total Debt	<u>\$ 4,853,000</u>	<u>\$ 5,610,000</u>

During 2010, the District purchases five new ambulances totaling \$558,000 and three new chassis for the remount of existing ambulances totaling \$124,000. The overall decrease in capital assets is due to the disposal of equipment that was no longer in use.

Total debt was reduced by \$758,000 during 2010 and no additional debt was acquired. The Kansas State Bank and Old National Bank notes were paid off during 2010.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

- The District anticipates a decrease in tax revenue for fiscal 2011 due to an overall decrease in the property value assessment.
- The District anticipates the need for two additional ambulance stations. The purchase and construction of these stations is expected to occur in 2011.
- The District anticipates transition of daily operations to HCEC to occur in June 2011.

* * * * *

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, Executive Director, 2800 Aldine Bender Rd., Houston, TX 77032.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,257,249	\$ 1,532,970
Patient Services Receivable, Net	1,853,922	2,275,492
Property Taxes Receivable, Net	6,975,959	7,873,377
Other Receivables	9,266	139,840
Due from Harris County Emergency Corps	740,000	-
Prepaid Expenses	7,433	7,433
Total Current Assets	11,843,829	11,829,112
CAPITAL ASSETS, NET	9,133,101	9,855,377
OTHER ASSETS	800,000	800,000
TOTAL ASSETS	\$ 21,776,930	\$ 22,484,489

LIABILITIES

CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 666,063	\$ 1,002,612
Interest Payable	25,385	26,730
Notes Payable, Current Portion	281,979	757,773
Deferred Property Tax Revenue	8,081,581	8,360,773
Total Current Liabilities	9,055,008	10,147,888
LONG-TERM LIABILITIES:		
Notes Payable, Net of Current Portion	4,570,531	4,852,510
TOTAL LIABILITIES	13,625,539	15,000,398

COMMITMENTS AND CONTINGENCIES

NET ASSETS

NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	4,280,591	4,245,094
Unrestricted	3,870,800	3,238,997
TOTAL NET ASSETS	\$ 8,151,391	\$ 7,484,091

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 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Patient Services Revenue	\$ 28,356,823	\$ 23,319,880
Provision for Uncollectible Accounts	(23,146,655)	(18,136,951)
Net Patient Services Revenue	5,210,168	5,182,929
Air Medical Services Fees	-	326,422
Communication Center Service Fees	247,852	355,463
Urgent Care Clinic Service Fees, Net	37,009	108,226
Other Income	143,855	72,056
TOTAL OPERATING REVENUES	5,638,884	6,045,096
OPERATING EXPENSES:		
Salaries and Related Expenses	7,374,154	7,130,677
Program Expense	1,366,499	1,419,761
Urgent Care Clinic Expenses	67,117	95,891
Depreciation	1,421,249	1,291,152
Occupancy	265,263	406,031
Insurance	769,495	634,191
Professional Fees	1,027,760	1,072,277
Other General and Administrative Expenses	649,762	785,687
TOTAL OPERATING EXPENSES	12,941,299	12,835,667
OPERATING LOSS	(7,302,415)	(6,790,571)
NON-OPERATING REVENUE (EXPENSE):		
Property Tax Revenue, Net	8,269,691	7,807,966
Loss on Disposal of Capital Assets	(47,471)	-
Interest Income	8,756	30,534
Interest Expense	(261,261)	(300,250)
Total Non-Operating Revenue, Net	7,969,715	7,538,250
INCREASE IN NET ASSETS	667,300	747,679
NET ASSETS, BEGINNING OF YEAR	7,484,091	6,736,412
NET ASSETS, END OF YEAR	\$ 8,151,391	\$ 7,484,091

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

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients for Services	\$ 5,631,738	\$ 5,154,232
Cash Received from Air Medical Services and and Communication Center Services	278,488	745,036
Cash Received from Urgent Care Clinic Services	131,437	12,172
Other Operating Cash Receipts	149,365	74,843
Cash Payments to Suppliers for Goods and Services	(4,497,693)	(4,201,766)
Cash Payments to and on Behalf of Employees for Services	<u>(7,358,906)</u>	<u>(7,008,443)</u>
Net Cash Used in Operating Activities	<u>(5,665,571)</u>	<u>(5,223,926)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITY:		
Cash Received from Property Taxes	8,887,917	7,979,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(746,444)	(2,351,764)
Repayments under Notes Payable	(757,773)	(765,357)
Payments of Interest on Capital Debt	<u>(262,606)</u>	<u>(390,914)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(1,766,823)</u>	<u>(3,508,035)</u>
CASH FLOWS FROM INVESTING ACTIVITY:		
Advances to Harris County Emergency Corps	(740,000)	-
Interest Income	<u>8,756</u>	<u>30,534</u>
Net Cash Provided by (Used in) Investing Activities	<u>(731,244)</u>	<u>30,534</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	724,279	(721,588)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,532,970</u>	<u>2,254,558</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,257,249</u>	<u>\$ 1,532,970</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating Loss	\$ (7,302,415)	\$ (6,790,571)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	1,421,249	1,291,152
Changes in Assets and Liabilities:		
Patients Service Receivable	421,570	(28,697)
Other Receivables	130,574	(30,116)
Prepaid Expenses	-	8,306
Accounts Payable and Accrued Expenses	<u>(336,549)</u>	<u>326,000</u>
Net Cash Used in Operating Activities	<u>\$ (5,665,571)</u>	<u>\$ (5,223,926)</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 YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Disposition of Fully Depreciated Capital Assets	\$ <u>934,168</u>	\$ <u>8,950</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 year ended December 31, 2010, the District’s Board of Commissioners ran unopposed and therefore the District did not hold an election. 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.

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, 2010 and 2009, the District’s cash and cash equivalents consisted of demand deposits.

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

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 payors. The District has agreements with third-party payors 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 date the financial statements were available for issuance on March 29, 2011. No matters were identified affecting 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, 2010 and 2009 were \$2,256,749 and \$1,532,270, respectively, while total bank balances as of December 31, 2010 and 2009 equaled \$2,345,378 and \$1,555,403, respectively. Bank balances of \$250,000 were covered by federal depository insurance and \$1,750,294 and \$1,001,789 were covered by collateral pledged in the District's name as of December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the District's deposits in non-interest bearing accounts were fully insured by the FDIC. Management believes any credit risk is low due to the overall financial strength of the financial institutions. Cash on hand equaled \$500 and \$700 as of December 31, 2010 and 2009, respectively.

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. 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, 2010 and 2009.

NOTE 4 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Patient Services Receivable	\$ 58,374,020	\$ 44,424,031
Less Allowance for Doubtful Accounts	<u>(56,520,098)</u>	<u>(42,148,539)</u>
	<u>\$ 1,853,922</u>	<u>\$ 2,275,492</u>
Property Taxes Receivable	7,476,567	8,202,486
Less Allowance for Doubtful Accounts	<u>(500,608)</u>	<u>(329,109)</u>
	<u>\$ 6,975,959</u>	<u>\$ 7,873,377</u>

Other receivables consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Other Receivables:		
Communication Center Services Receivable	\$ 6,356	\$ 36,992
Urgent Care Clinic Receivable	1,626	96,054
Employee Receivable	<u>1,284</u>	<u>6,794</u>
Total Other Receivables	<u>\$ 9,266</u>	<u>\$ 139,840</u>

Payables consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Vendor Payable	\$ 389,800	\$ 740,454
Salaries Payable	192,500	177,252
Benefits Payable	<u>83,763</u>	<u>84,906</u>
	<u>\$ 666,063</u>	<u>\$ 1,002,612</u>

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

NOTE 5 – CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2010 were as follows:

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010
Not Depreciated:				
Land	\$ 693,804	\$ -	\$ -	\$ 693,804
Other Capital Assets:				
Buildings and Improvements	\$ 7,486,230	\$ -	\$ 81	\$ 7,486,149
Ambulances and Other Vehicles	2,498,226	681,487	-	3,179,713
Furniture and Equipment	2,756,971	64,957	982,534	1,839,394
Total Depreciated	<u>12,741,427</u>	<u>746,444</u>	<u>982,615</u>	<u>12,505,256</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$ 800,275	\$ 386,410	\$ -	\$ 1,186,685
Ambulances and Other Vehicles	1,495,189	650,373	-	2,145,562
Furniture and Equipment	1,284,390	384,466	935,144	733,712
Total Accumulated Depreciation	<u>3,579,854</u>	<u>1,421,249</u>	<u>935,144</u>	<u>4,065,959</u>
Net Capital Assets	<u>\$ 9,855,377</u>	<u>\$ (674,805)</u>	<u>\$ 47,471</u>	<u>\$ 9,133,101</u>

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	1,439,989	1,081,551	2,521,540	-
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	1,704,548	1,061,373	8,950	2,756,971
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	958,264	335,076	8,950	1,284,390
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 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 license is perpetual and is not required to be reported as a capital asset because it is used to generate revenue for the District. The remaining \$200,000 was recorded in capital assets, and were retired in 2010. 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, 2010 and 2009, the balance on this note was \$400,218 and \$419,098, respectively.

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 was due in monthly payments of approximately \$8,800, including accrued interest, beginning October 25, 2007 through September 25, 2010. The monitors were pledged as collateral for the note. The balance of the note was \$77,252 at December 31, 2009. The note was paid off as of December 31, 2010, as prescribed by the note terms.

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 interest-only payment of \$111,000 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, 2010 and 2009 was \$4,452,292 and \$4,701,652, 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 was due in monthly payments, including accrued interest, of approximately \$38,000 beginning January 1, 2009 through December 1, 2010. The ambulances were pledged as collateral for the note. The balance of the note was \$412,281 at December 31, 2009. The note was paid off as of December 31, 2010, as prescribed by the note terms.

Notes payable activities for the year ended December 31, 2010 were as follows:

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010
Wells Fargo Note Payable	\$ 419,098	\$ -	\$ 18,880	\$ 400,218
Kansas State Bank of Manhattan Note Payable	77,252	-	77,252	-
De Lage Landen Public Finance Note Payable	4,701,652	-	249,360	4,452,292
Old National Bank Note Payable	412,281	-	412,281	-
	<u>\$ 5,610,283</u>	<u>\$ -</u>	<u>\$ 757,773</u>	<u>\$ 4,852,510</u>
Total Notes Payable				

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

NOTE 7 – NOTES PAYABLE – CONTINUED

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

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Wells Fargo Note Payable	\$ 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>

Future annual principal payments at December 31, 2010 are as follows:

<u>Years Ending December 31,</u>	
2011	\$ 281,979
2012	296,420
2013	311,601
2014	327,561
2015	344,337
Thereafter	<u>3,290,612</u>
 Total future principal payments	 <u>\$ 4,852,510</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, 2010 and 2009. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2010 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an original assessment of \$8,081,581 on the assessment valuation of approximately \$8,081,581,000. As of December 31, 2010, \$1,537,310 of the 2010 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 2010 assessment has been fully deferred to 2011.

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

NOTE 8 – PROPERTY TAX – CONTINUED

For the 2009 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an adjusted assessment of \$8,357,187 on the assessment valuation of approximately \$8,357,187,000. As of December 31, 2010, \$8,072,281 of the 2009 assessment has been collected.

For the 2008 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an adjusted assessment of \$7,957,921 on the assessment valuation of approximately \$7,957,921,000. As of December 31, 2010, \$7,776,241 of the 2008 assessment has been collected.

Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The District received approximately 60% and 56% of its revenue from property taxes in the years ended December 31, 2010 and 2009, respectively.

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 years ended December 31, 2010 and 2009, the District elected to match contributions by 5% and contributed approximately \$159,613 and \$140,282, respectively. The employer portion becomes vested 20% after one year, with an additional 20% per year until fully vested.

NOTE 10 – HARRIS COUNTY EMERGENCY CORPS

On June 10, 2010, Harris County Emergency Corps. (“HCEC”) was formed as a non-profit corporation with the primary purpose of furnishing emergency medical service and transportation. The District intends to transfer operational responsibility of these emergency services to HCEC, and will compensate HCEC for uninsured patients that are provided services but do not remit payment for these services. A substantial portion of the District’s capital assets will be leased or sold to HCEC, as to be determined by the Board of Commissioners of the District. At the time the financial statements were available for issuance, HCEC had not begun operations.

During the year ended December 31, 2010, the District made advances to HCEC totaling \$740,000. There are no formal repayment terms, but the receivable is expected to be offset by future billings to the District from HCEC for medical service and transportation provided by HCEC to uninsured residents of the District. The advances are recorded as due from related party on the accompanying statement of net assets.

NOTE 11 – COMMISSIONER REIMBURSEMENT

Commissioners are reimbursed a maximum of \$3,000 annually for their service. Reimbursements totaled \$11,850 and \$12,350 for the years ended December 31, 2010 and 2009, respectively, and are included in salaries and related expenses on the accompanying statement of revenues, expenses and changes in net assets.

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

NOTE 12 – COMMITMENTS

The District has entered into employment agreements with its Executive Director and other key employees for terms ranging from one to two years. The agreements provide for annual base compensation payments, minimum annual salary increases and car allowances, as defined in the agreements. The agreements also contain automatic annual renewals in the absence of written termination of the agreements. For years subsequent to 2010, the District's minimum commitment to pay annual compensation under these agreements is summarized as follows:

<u>Years Ending</u> <u>December 31,</u>		
2011	\$	587,240
2012		<u>48,689</u>
Total future payments	\$	<u>635,929</u>

NOTE 13 – 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 14 – 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 15 – FUTURE ACCOUNTING PRONOUNCEMENTS

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.

Effective for periods beginning after December 15, 2011, governmental entities are required to identify service concession arrangements ("SCA") between a transferor (a government) and an operator (a governmental or nongovernmental entity) in which (1) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. Standards are established for recognition, measurement and disclosure requirements for SCA for both the transferors and operators.

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

NOTE 15 – FUTURE ACCOUNTING PRONOUNCEMENTS – CONTINUED

Effective for periods beginning after December 15, 2010, amounts due from third-party payors for retroactive adjustments of items such as final settlements or appeals should be reported separately from other patient services receivable balances.

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