

**HARRIS COUNTY EMERGENCY SERVICES
DISTRICT #1**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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 9

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net assets of Harris County Emergency Services District #1 (the "District") as of September 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the District as of September 30, 2006, were audited by other auditors whose report dated August 15, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 September 30, 2007, and the changes in its net assets and its cash flows for the year 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

December 8, 2008

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 during the years ended September 30, 2007 and 2006. It includes comparative data for the years ended September 30, 2007 and 2006, with a brief explanation for significant changes between fiscal years. 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 financial statements and the footnotes. Responsibility for the completeness of this information rests with the management of the District.

FINANCIAL HIGHLIGHTS

- On February 28, 2007, the District purchased real property located at 1618 Isom Street, Houston, Texas. This property was purchased for the amount of \$130,000 and was owner-financed for one year. The property is located adjacent to the District's headquarters.
- Throughout 2007, the District undertook major renovations and remodeling to its headquarters building at 1620 Isom Street, Houston, Texas. These renovations included complete remodeling of the interior offices of the building, tile work and new siding for the building's exterior. The District purchased all the building materials and performed the construction work in-house.
- In May 2007, the District held an election to increase its maximum ad valorem tax rate from \$0.03 per \$100 of valuation to the statutory maximum rate of \$0.10 per \$100 of valuation. The voters elected to approve this measure.
- In December 2007, The Critical Care Transport Division was developed to assist with offsetting the cost of delivering indigent care transports. The division assists critical patients that need transport from one health care facility to a facility that is capable of providing a higher level of care. The majority of these patients have private health care insurance that will pay the transport costs and the revenue received will be used to help subsidize uncovered health care delivered to non-insured patients.
- The District entered into an agreement with Harris County Hospital District to transfer critical care patients from county facilities to county hospitals. Both entities are partially supported by tax revenue. The agreement allows both entities involved to deliver more medical care by keeping the tax revenue within the county jurisdictions.

ECONOMIC FACTORS

The latest studies have found Texas has the highest number of residents without healthcare coverage in the United States. Though the payment reimbursements of Medicare and Medicaid have minimally increased each year, it is not at the same rate as the increase in normal operating costs, increased costs of medication and supplies, and the continued increase in cost of ambulance services. Insurance companies continue to dictate patient care which continues to financially burden the health care industry as a whole. Management will continue to focus on conventional and other means of increasing revenue at many different levels to help subsidize the District's indigent patient population. This will also ensure each citizen/patient has the most advanced pre-hospital health care 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 in order to increase the chance of collection of fees for services and insurance claims.

The District continually experiences a shortage of pre-hospital health care 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 currently applying for National Accreditation through the Commission on Accreditation of Ambulance Services. 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.

The District has seen a drastic decrease in ambulance fleet maintenance repairs due to the implementation of a preventative maintenance program and these expenses are expected to continue to decrease. As part of this preventative maintenance program, master mechanics were added to the District's staff. Repairs were performed in-house in the current fiscal year, while historically these repairs had been outsourced to third-party service providers.

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 fiscal year 2008. The District adopted an operating budget in June 2007 for fiscal year 2008 with projected revenues of approximately \$9,705,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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, increases or decreases 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 at September 30:

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Assets:			
Current Assets	\$ 3,121,000	\$ 3,039,000	\$ 82,000
Capital Assets, Net	<u>2,572,000</u>	<u>2,190,000</u>	<u>382,000</u>
Total Assets	<u>5,693,000</u>	<u>5,229,000</u>	<u>464,000</u>
Liabilities			
Current Liabilities	\$ 297,000	\$ 329,000	\$ (32,000)
Notes Payable - Current	536,000	16,000	520,000
Notes Payable - Long Term	<u>437,000</u>	<u>454,000</u>	<u>(17,000)</u>
Total Liabilities	<u>1,270,000</u>	<u>799,000</u>	<u>471,000</u>
Total Net Assets	<u>\$ 4,423,000</u>	<u>\$ 4,430,000</u>	<u>\$ (7,000)</u>

For the year ended September 30, 2007, cash and cash equivalents decreased approximately \$144,000 or 10%. This decrease reflects the additional operating costs incurred by the District. Taxes receivable decreased approximately \$47,000 or 15%. The District's tax rate remained approximately \$0.03 cents per \$100. 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. Fees for services receivable, net of allowance for uncollectible items, increased from \$1,335,000 in 2006 to \$1,588,000 in 2007 as a result of 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. Capital assets increased approximately \$789,000 due to the purchase of ambulances, the purchase of land and construction in progress and building improvements. The increase in capital assets was offset by approximately \$407,000 of depreciation expense. Notes payable, including current and long term, increased from \$470,000 in 2006 to \$929,000 in 2007 due to the purchase of four new ambulances that were financed through a bank. See Capital Asset and Debt Activity section below for further discussion on capital assets and notes payable.

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 as of September 30:

	<u>2007</u>	<u>2006</u>
Revenues:		
Service Fees, Net	\$ 4,085,000	\$ 3,536,000
Taxes, Net	1,807,000	1,781,000
Other Income	<u>113,000</u>	<u>125,000</u>
Total Revenues	<u>6,005,000</u>	<u>5,442,000</u>
Total Expenses	<u>6,012,000</u>	<u>4,997,000</u>
Increase (Decrease) in Net Assets	(7,000)	445,000
Net Assets - Beginning of Year	<u>4,430,000</u>	<u>3,985,000</u>
Net Assets - End of Year	\$ <u>4,423,000</u>	\$ <u>4,430,000</u>

Net fees for services revenue increased \$549,000 or 16% from 2006 to 2007. The increase was due to a higher number of transports and billing certain services at a higher market value.

Property tax revenues increased slightly due to an increase in assessed valuation. The District suffers minimal growth in taxable values.

Total operating expenses for the District increased \$1,020,000 or 21%. Compared to fiscal year 2006, salaries and wages increased 19% to approximately \$3,081,000. In order to stay competitive with the market, the District increased salaries in the current fiscal year. Other increases include professional fees, insurance and depreciation. The District was also affected by price increases in medical supplies, fuel and utilities.

Capital Asset and Debt Activity

During fiscal year 2007, the District purchased land for approximately \$130,000 and had construction in progress of approximately \$188,000. The land purchase was financed through the previous owner for a down payment of \$25,000 and a note payable of \$125,000 to be paid in equal monthly installments ending in February 2008. The District also purchased four new ambulances to replace some of its aging fleet. The ambulances were financed with a bank under a note payable of \$475,000 due in a lump-sum payment in April 2008. .

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

- The District anticipates it will complete payments and own outright the property it purchased at 1618 Isom Street, Houston, Texas in fiscal year 2008.
- In addition, the District anticipates the need to acquire additional space to accommodate the growth in its administration and operations. This property shall be purchased within the boundaries of the District and will be financed using an appropriate and reputable public financing company.
- The District shall also attempt to acquire through asset purchase, the operations of its current third-party dispatching service.
- Because of the maximum tax rate increase election held in May 2007, the District anticipates it will raise its tax rate for the 2007-2008 tax year. The District shall comply with all Truth in Taxation laws in setting its new rate. This will be the first rate increase in the District's history.

* * * * *

This financial report is designed to provide a general overview of the Harris County Emergency Services District #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 Street, Houston, Texas 77039.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,240,483	\$ 1,384,361
Taxes Receivable, Less Allowance for Uncollectible Items of \$65,430 and \$71,429, Respectively	257,689	304,837
Fees for Services Receivable, Less Allowance for Uncollectible Items of \$18,715,073 and \$8,006,323, Respectively	1,587,564	1,335,477
Other Receivables and Prepaid Expenses	<u>35,896</u>	<u>14,440</u>
Total Current Assets	<u>3,121,632</u>	<u>3,039,115</u>
CAPITAL ASSETS, NET	<u>2,571,996</u>	<u>2,190,323</u>
TOTAL ASSETS	<u>5,693,628</u>	<u>5,229,438</u>
CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	297,604	329,126
Notes Payable, Current Portion	<u>535,753</u>	<u>16,136</u>
Total Current Liabilities	<u>833,357</u>	<u>345,262</u>
LONG-TERM LIABILITIES		
Note Payable, Net of Current Portion	<u>437,016</u>	<u>454,019</u>
TOTAL LIABILITIES	<u>1,270,373</u>	<u>799,281</u>
NET ASSETS	<u>\$ 4,423,255</u>	<u>\$ 4,430,157</u>

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 SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES:		
Net Fees for Services Revenue	\$ 18,348,863	\$ 16,170,715
Provisions for Uncollectible Accounts	<u>(14,263,776)</u>	<u>(12,635,171)</u>
Total Net Fees for Service	4,085,087	3,535,544
Taxes, Net	1,807,156	1,780,981
Other Income	<u>46,359</u>	<u>40,549</u>
TOTAL REVENUES	<u>5,938,602</u>	<u>5,357,074</u>
EXPENSES:		
Salaries and Related Expenses	3,081,354	2,591,330
Program Expense	963,929	885,640
Depreciation	407,235	245,458
Occupancy	52,634	71,025
Insurance	352,952	357,703
Professional Fees	797,502	514,621
Other General and Administrative Expenses	<u>325,556</u>	<u>295,275</u>
TOTAL EXPENSES	<u>5,981,162</u>	<u>4,961,052</u>
NONOPERATING INCOME (EXPENSE):		
Interest Income	66,697	65,889
Gain on Disposition of Capital Assets	-	19,069
Interest Expense	<u>(31,039)</u>	<u>(36,285)</u>
Total Nonoperating Income	<u>35,658</u>	<u>48,673</u>
CHANGE IN NET ASSETS	(6,902)	444,695
NET ASSETS, BEGINNING OF YEAR	<u>4,430,157</u>	<u>3,985,462</u>
NET ASSETS, END OF YEAR	<u><u>\$ 4,423,255</u></u>	<u><u>\$ 4,430,157</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 YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients for Services	\$ 3,833,000	\$ 2,985,536
Cash Received from Taxes	1,854,304	1,569,398
Other Operating Cash Receipts	107,478	106,438
Cash Payments to Suppliers for Goods, Services and Interest	(2,801,218)	(1,532,115)
Cash Payments to Employees for Services	<u>(2,851,148)</u>	<u>(2,831,631)</u>
Net Cash Provided by Operating Activities	<u>142,416</u>	<u>297,626</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(788,908)	(888,867)
Disposition of Capital Assets	-	19,806
Net Borrowings (Repayments) under Notes Payable	<u>502,614</u>	<u>(15,313)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(286,294)</u>	<u>(884,374)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(143,878)	(586,748)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,384,361</u>	<u>1,971,109</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,240,483</u>	<u>\$ 1,384,361</u>
RECONCILIATION OF CHANGE IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ (6,902)	\$ 444,695
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	407,235	245,458
Gain on Disposition of Capital Assets	-	(19,069)
(Increase) Decrease In:		
Taxes Receivable	47,148	(62,001)
Fees for Services Receivable	(252,087)	(377,767)
Other Receivables and Prepaid Expenses	(21,456)	(12,295)
Increase (Decrease) In:		
Accounts Payable and Accrued Expenses	<u>(31,522)</u>	<u>78,605</u>
Net Cash Provided by Operating Activities	<u>\$ 142,416</u>	<u>\$ 297,626</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash Paid for Interest	<u>\$ 31,039</u>	<u>\$ 36,285</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) is a government entity which provides emergency services to the citizens of North Harris County. The District is not a component unit of another governmental entity. The District was approved by the voters of Harris County on May 4, 1991. 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.

For the year ended September 30, 2007, the five member Board of Commissioners (the “Board”) was appointed by the Harris County Commissioners’ Court and govern the District. 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. The District held its first election of the Board members in May 2008.

The District’s operating budget is subject to approval by the Commissioners’ Court. The District’s share of County property tax levy of \$0.03 per \$100 of valuation is set by the legislature of the State of Texas. The operations of the District are also supported by insurance and private patient billings for services rendered.

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.

Proprietary Fund Accounting

The District utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less from the date of acquisition to be cash equivalents. At September 30, 2007, the District’s cash and cash equivalents consisted of demand deposits, a money market account and certificates of 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.

Revenue Recognition

Fees for services are recognized as revenue in the period in which the services are provided. 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. Net fee for service is reported at the estimated net realizable amounts from patients and third-party payers.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax

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

Reclassifications

Certain items presented in the financial statements as of September 30, 2006 have been reclassified to be comparable to the presentation of the September 30, 2007 financial statements. These reclassifications have no effect on net assets, change in net assets or cash flows.

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.

NOTE 3 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the District's demand deposits with financial institutions as of September 30, 2007 and 2006 were \$163,998 and \$215,384, respectively, while total bank balances as of September 30, 2007 and 2006 equaled \$269,837 and \$216,384. Bank balances of \$100,000 were covered by federal depository insurance and \$169,837 and \$116,384 were covered by collateral pledged in the District's name as of September 30, 2007 and 2006, respectively. Cash on hand equaled \$500 and \$1,000 as of September 30, 2007 and 2006, respectively.

The District is restricted by the state statute to investments which include obligations of, or guaranteed by government entities. As of September 30, 2007 and 2006, the District held government money-market securities in the amount of \$871,134 and \$1,167,977, respectively. The money-markets 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 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.

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

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets activities for the year ended September 30, 2007:

	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

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

NOTE 4 – CAPITAL ASSETS (CONTINUED)

The following is a summary of capital assets activities for the year ended September 30, 2006:

	Balance October 1, 2005	Increase	Decrease	Balance September 30, 2006
Not Depreciated:				
Land	\$ 234,963	\$ -	\$ -	\$ 234,963
Construction in Progress	315,271	-	315,271	-
Total Not Depreciated	550,234	-	315,271	234,963
Other Capital Assets:				
Buildings and Improvements	\$ 1,026,769	\$ 523,387	\$ 10,850	\$ 1,539,306
Ambulances and Other Vehicles	1,068,690	468,214	25,622	1,511,282
Furniture and Equipment	623,295	212,537	-	835,832
Total Depreciated	2,718,754	1,204,138	36,472	3,886,420
Less Accumulated Depreciation:				
Buildings and Improvements	217,051	74,866	10,113	281,804
Ambulances and Other Vehicles	906,341	134,248	25,622	1,014,967
Furniture and Equipment	597,945	36,344	-	634,289
Total Accumulated Depreciation	1,721,337	245,458	35,735	1,931,060
Net Capital Assets	\$ 1,547,651	\$ 958,680	\$ 316,008	\$ 2,190,323

NOTE 5 – 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 September 30, 2007, the balance on this note was \$454,019.

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, is due in monthly payments of \$8,750 beginning March 1, 2007 and was paid off February 1, 2008. At September 30, 2007, the balance on this note was \$43,750.

On July 11, 2007, the District acquired an additional 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 March 26, 2008.

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

NOTE 5 – NOTES PAYABLE (CONTINUED)

Future annual principal payments at September 30, 2007 are as follows:

<u>Years Ending</u> <u>September 30,</u>		
2008	\$	535,753
2009		17,917
2010		18,880
2011		19,895
2012		20,964
Thereafter		<u>359,360</u>
 Total future principal payments	 \$	 <u><u>972,769</u></u>

NOTE 6 – 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, business/land 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.

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 the fiscal year end, September 30, 2007, \$1,728,919 of the 2006 assessment has been collected.

For the 2005 tax year, the District levied an assessment of \$0.02918 per \$100 of assessed valuation, resulting in an original assessment of \$1,670,656 on the assessment valuation of \$5,725,123,869. As of the fiscal year end, September 30, 2006, \$1,569,422 of the 2005 assessment has been collected.

Tax collections for the years ended September 30, 2007 and 2006 were 94.80% and 93.94%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. Tax revenues are recognized in the year of assessment. The District received approximately 30% and 33% of its revenue from property taxes in the fiscal years ended 2007 and 2006, respectively.

NOTE 7 – 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. In 2007 and 2006, the District elected to match contributions by 5% and contributed approximately \$38,000 and \$24,000, respectively. The employer portion becomes vested 20% after one year, with an additional 20% per year until fully vested.

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

NOTE 8 – RELATED PARTY TRANSACTIONS

A member of the management of the District was part owner in a company that provided construction services to the District. Total amounts paid to the company for the years ended September 30, 2006, amounted to \$167,237. No payments to related parties were made during 2007.

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 – CONTINGENCIES

The District has been named 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 11 – SUBSEQUENT EVENTS

Capital Assets

On August 6, 2008, the District purchased land and a building for \$3,400,000. Additionally the District anticipates adding \$1,500,000 in improvements and medical equipment purchases. The addition of these items has been financed through a note payable with a bank. Future tax receipts have been pledged as collateral for this debt. An initial payment of \$111,000 is due in January 2009, followed by monthly payments of approximately \$40,000 through 2018. Subsequent monthly payments of approximately \$37,000 are due until December 2023. The note carries an interest rate of 4.987% and a prepayment penalty for the first five years.

On June 15, 2007, the District's Commissioners, under a special election, approved an increase of the tax rate to \$0.10 per \$100 effective for the 2007-2008 tax year.

Fiscal Year End

On April 29, 2008, the Board elected to change the District's fiscal year end to a calendar year end, effective December 31, 2008.