

**Greater Harris County
9-1-1 Emergency Network**

**Financial Statements and Auditor's Report
December 31, 2008 and 2007**

Audited by:
Null-Lairson, P.C.
Certified Public Accountants



INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Greater Harris County 9-1-1 Emergency Network
Houston, Texas

We have audited the accompanying statements of net assets of the business type activities of Greater Harris County 9-1-1 Emergency Network (the "GHC 9-1-1"), as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the GHC 9-1-1'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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GHC 9-1-1's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 the GHC 9-1-1, as of December 31, 2008 and 2007, and the results of its operations and 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 information listed in the table of contents 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 inquiries 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.

Null-Lairson, PC

Houston, Texas
April 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Greater Harris County 9-1-1 Emergency Network's ("GHC 9-1-1") financial activities for the year ended December 31, 2008. The discussion and analysis should be read along with GHC 9-1-1's financial statements and accompanying footnotes.

Highlights

Financial Highlights

- GHC 9-1-1's cash and investment balance decreased by \$0.9 million to \$26.6 million, as funds are expended for the construction of GHC 9-1-1's headquarters. The funds will be used to pay bond debt for 9-1-1 wireless location services, capital replacement, construction of GHC 9-1-1's headquarters which will house administrative and operations staff, and upgrades to the 9-1-1 infrastructure (referred as Next Generation of 9-1-1) over the next five years.
- Accounts receivable increased by 9.2% due to an increase in service fee revenue.
- The increase of \$1.9 million in inventoried equipment is due to the replacement of fully depreciated equipment replaced in accordance with GHC 9-1-1's capital replacement plan and the acquisition of software for GHC 9-1-1's new in-house database system.
- GHC 9-1-1 began building its offices, which will house the administrative/operations staff and the training center. The facility will also serve as a backup call center and allow GHC 9-1-1 to meet its future facility needs, providing flexibility for growth.
- Revenue Refunding Bonds were issued during 2004 and 2005, to finance a portion of the wireless cost recovery funding for 9-1-1 wireless location services. The bonds payable balance total \$0.5 million—the decrease of \$3.0 million is due to the scheduled debt service payments.
- The 9-1-1 service fee revenue increased by \$1.6 million or 4.8% due to an increase in wireless service fee revenue resulting from an increase in wireless subscribers.
- Salaries and benefits increased because of GHC 9-1-1's adjustment in staff duties due to bringing the database function in-house and to meet the added demands on the 9-1-1 system from the ever-changing technology and challenges brought on by new types of devices used to call 9-1-1.
- The "Fees and Services" reflects a decrease in expenses totaling \$1.9 million. The decrease was due to reduction in wireless location service expenses paid to wireless service providers for 9-1-1 call location services mandated by the Federal Communications Commission ("FCC"). Public Safety Answering Point ("PSAP") expenses are a major component of the "Fees and Service" total, which includes funding for 9-1-1 call takers managed by the Houston Emergency Center ("HEC") and Harris County. Other costs for PSAPs, as with the remaining jurisdictions, are included in other expense accounts.

Using This Annual Report

This annual report consists of two parts: Management's Discussion and Analysis, and Financial Statements. The Financial Statements also include notes that explain, in more detail, some of the information included in the report.

GHC 9-1-1

GHC 9-1-1 was established in 1983, with the passage of enabling legislation (Legislation now codified as Chapter 772, Subchapter B of the Texas Health and Safety Code) followed by a voter referendum throughout the Harris County area. The voter referendum—to establish an emergency communication district to provide 9-1-1 service and to assess a fee to fund the service—was approved by 82.5% of Harris County voters.

The effort to establish 9-1-1 service in the Harris County area began in the late 1970's. At that time, over 150 emergency 7-digit telephone numbers existed—citizens had to figure out which agency served their area, and locate the proper emergency number. Harris County, the City of Houston, the Harris County

Firefighters Association, other area cities and private citizens came together to work towards establishing 9-1-1 as the one emergency number for all citizens. These groups working together sought to establish a regional approach to providing 9-1-1 service to all citizens throughout the area. This effort resulted in the 1983 legislation cited above.

In 2005, the 79th Legislature passed SB621 that enabled Fort Bend County to become a fully participating jurisdiction in GHC 9-1-1, pursuant to Health and Safety Code 772 Subchapter B. Fort Bend County and the twelve municipalities within Fort Bend County passed resolutions to become part of GHC 9-1-1 effective September 1, 2005.

GHC 9-1-1 provides 9-1-1 communication services including: 9-1-1 equipment (hardware and software), a 24-hour, 365 days/year Command Center (in-house maintenance and support of all 9-1-1 systems), in-house database management for approximately three million telephone records, and other GHC 9-1-1 equipment used by the forty-eight cities and two counties (Harris and Fort Bend Counties) served by GHC 9-1-1 to receive and process the 9-1-1 emergency calls from their citizens. In excess of 150 police, fire and emergency medical agencies provide response to citizen emergencies.

With the Telecom Act of 1996, GHC 9-1-1's scope of service has expanded to include competitive local exchange carriers ("CLECs") and now Voice Over Internet Protocol ("VoIP") service providers ("VSP"). Texas law mandates that service providers of residential service behind private switch networks provide same level 9-1-1 service as standard residential service. Also, the Federal Communications Commission ("FCC") has broadened the scope of E911 to include wireless service providers and VSPs. Therefore, the scope of providers GHC 9-1-1 deals with has dramatically increased in both size and complexity.

With all the changes in the 9-1-1 industry, GHC 9-1-1's financial position has increased as reflected in the net assets presented in Table 1, below, which reflects an increase of 18.3% (\$44.6 million compared to \$37.7 million). The majority of the \$6.9 million increase in Net Assets is a result of capital investment in the office building project which will benefit GHC 9-1-1 in the future.

Table 1
Net Assets
(in Millions)

	2008	2007
Current Assets	\$ 33.9	\$ 36.1
Capital and Other Assets	13.2	10.0
Total Assets	<u>\$ 47.1</u>	<u>\$ 46.1</u>
Current Liabilities	\$ 2.5	\$ 7.6
Noncurrent Liabilities	-	0.8
Total Liabilities	<u>\$ 2.5</u>	<u>\$ 8.4</u>
Net Assets:		
Invested in Capital, Net of Debt	\$ 12.1	\$ 7.0
Unrestricted	27.7	26.4
Restricted	4.8	4.3
Total Net Assets	<u>\$ 44.6</u>	<u>\$ 37.7</u>

Changes in GHC 9-1-1's net assets are reflected in Table 2, below, which presents the condensed Statement of Revenue, Expense and Changes in Net Assets for the year.

Table 2
Change in Net Assets
(in Millions)

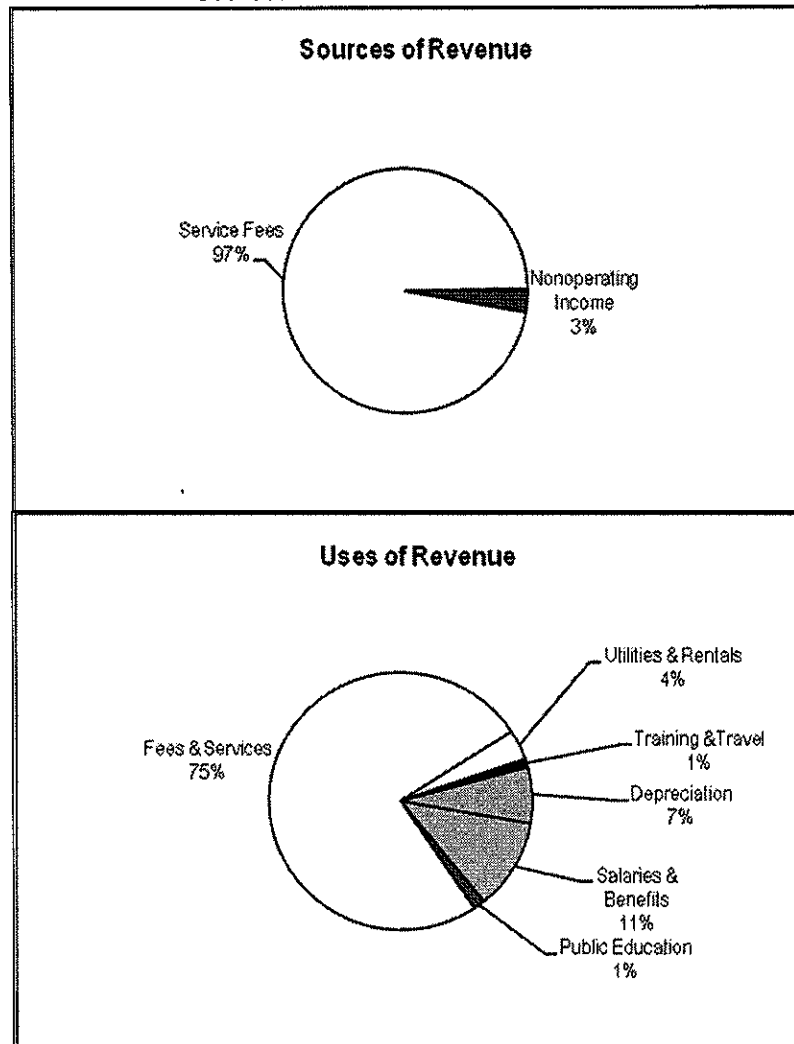
	2008	2007
Revenues:		
Net Operating Revenues	\$ 34.8	\$ 33.2
Interest and Nonoperating Income	1.1	1.6
Total Revenues	35.8	34.8
Expenses:		
Operating Expense	28.9	30.3
Interest Expense	0.1	0.2
Total Expenses	28.9	30.5
Change in Net Assets—Excess of Revenues Over Expenses	6.9	4.3
Net Assets - Beginning Of Year	37.7	33.4
Net Assets - End Of Year	\$ 44.6	\$ 37.7

In Table 2, above, net operating revenues increased by 4.8% (\$1.6 million) due to the increase in wireless subscribers. The growth in service fee revenue from wireless subscribers has slowed down as anticipated due to market saturation, but does continue to grow while the wireline revenue portion continues to decrease.

Net operating expenses decreased by 4.6% (\$1.4 million) primarily due to the decrease in wireless location service expenses paid to wireless service providers for 9-1-1 call location services mandated by the Federal Communications Commission ("FCC"). Nonoperating interest expense decreased by \$0.1 million due to the decrease in the bond debt balances—the interest expense is for the bond issues described in the footnotes in the financial statements.

Table 3, below, presents the sources and uses of GHC 9-1-1's revenue.

Table 3
Sources and Uses of Revenue Charts



The "Service Fees" (97%) category is the main source of funding, while 75% of the uses of funds are for "Fees & Services" which include networking and telephone charges for connectivity from the telephone companies' central offices to the telephone company's selective router to GHC 9-1-1's 31 PSAPs, 10 secondary safety answering points (SSAPs), 9-1-1 database services, PSAP expenses for the City of Houston and Harris County, operation & maintenance expenses, and contract services. The "Salaries & Benefits" category is 11% of the uses of revenue (see chart above)—this category includes administrative staff and operational staff technicians, which provide technical support and maintenance for all 9-1-1 systems on a 24-hour, 365 days/year basis.

Demands and Challenges

Technology

The rapid changes occurring with and around the 9-1-1 industry are more complex than in previous years. New Internet Protocol ("IP") or digital-based services, present various technical, operational and financial challenges for the 9-1-1 emergency communications industry. The technical and operational solutions will need to address the manner in which new IP-based devices can access the 9-1-1 system and have callers routed to the appropriate PSAP with the necessary information to allow the call takers to process efficiently the 9-1-1 emergency calls. GHC 9-1-1 is involved in a service procurement process established by the Texas 9-1-1 Alliance (cooperative group of 9-1-1 Districts around Texas) to find solutions which can be used on a statewide and national basis. The Texas 9-1-1 Alliance has contracted with AT&T for "Validation Data Base/Emergency Routing Data Base" ("VDB/ERDB") services which will serve as the initial step in the migration to the Next Generation 9-1-1 infrastructure. Most IP-service providers have worked with 9-1-1 entities to integrate 9-1-1 IP-based calls into the existing 9-1-1 system; however, integration challenges remain between 9-1-1 and IP-based devices.

VDB/ERDB will accommodate those citizens who subscribe to IP-based service. These citizens self provide their addresses in the IP-based device and these addresses are used to route a call to 9-1-1, thus setting up the first half of the equation—VDB. The address provided by the subscriber must be validated against the 9-1-1 database for accuracy. Transparent to the citizen, only after a valid address is determined can the second half of the equation, ERDB, come into play—determining which jurisdiction and which emergency service providers serve that validated address. In addition, the ERDB will be able to properly route calls based on geographic coordinates—such as wireless phones and similar devices—to the proper PSAP.

Communications consumer migration from traditional legacy landline service to other types of devices is occurring. This migration may result in the erosion of GHC 9-1-1's revenue base, while costs to operate and maintain the 9-1-1 system may continue to increase. While a short-term funding solution for some IP-based services may have been reached, legislative action may be required to address funding on a long-term basis. GHC 9-1-1, in conjunction with the other emergency communication entities in Texas, will continue to work with voice communication service providers to integrate their systems with 9-1-1 and remit the 9-1-1 service fee to the appropriate 9-1-1 entity.

9-1-1 Infrastructure

The existing 9-1-1 infrastructure has been dependable and highly stable over the past 22+ years; however, integrating new communication services, available to citizens, with 9-1-1 is becoming more difficult. GHC 9-1-1 has started planning the migration to the next generation infrastructure for 9-1-1, which will accommodate new types of communication service providers and devices as they are rolled out into the market. The migration will result in increased bandwidth to all PSAPs, which will allow participating jurisdictions to pass the larger data files each entity needs in order to increase the efficiency and effectiveness in emergency response.

In order to continue to provide the best service to its 4.5 million citizens, GHC 9-1-1 acquired land and is constructing its new headquarters that will house GHC 9-1-1's staff. In addition, the building is designed to serve as a training center and a backup PSAP when necessary. The facility will provide the much needed flexibility to meet the constantly changing demands on GHC 9-1-1 and its Staff.

Regulatory

GHC 9-1-1 has actively involved itself with regulatory processes since the first year of its existence. GHC 9-1-1 is well aware that active involvement with the regulatory agencies—both on the state level and the federal level—is necessary to maintain a robust and affordable 9-1-1 system. GHC 9-1-1, therefore, has intervened in Texas Public Utility Commission ("PUC") dockets involving telephone company tariffs. It has

filed petitions and comments with the FCC involving wireless carrier issues and telephone company issues which fall under the venue of the Commission.

GHC 9-1-1 will continue this active involvement with the PUC, FCC, and legislative bodies to ensure that the competitive local telephone companies, wireless carriers, and emerging technology service providers comply with applicable PUC and FCC rules and legislation for the provision of 9-1-1 service, and with proper billing, collection and transmittal of 9-1-1 service fees in a timely manner.

Wireless Location Services

GHC 9-1-1 completed the implementation of location technology for wireless 9-1-1 (Phase II) during 2002. Location identification on wireless calls continues to be a top priority with public safety agencies receiving a rapidly increasing percentage—now approximately 70% of all 9-1-1 calls—from wireless devices.

Depending on the wireless location solution selected by each wireless carrier, the cost to provide the location for 9-1-1 emergency calls varies greatly. GHC 9-1-1 has contracts with wireless service providers to reimburse for 9-1-1 wireless location services. Some wireless carriers have chosen not to request reimbursement; however, others received some cost recovery funding.

Accomplishments

IP-based Solutions

GHC 9-1-1 was instrumental in the development of FCC Docket WC 05-196 known as the "VoIP (Voice-over IP) 9-1-1 Order," adopted by the FCC on May 19, 2005. The Order mandated that all interconnected IP-based service providers include 9-1-1 service for their customers by November 28, 2005.

GHC 9-1-1 staff continues to integrate proactively 9-1-1 with IP-based subscribers calling 9-1-1. This work will continue with the goal being to identify long-term solutions that will integrate 9-1-1 with all communication devices trying to access emergency services by dialing the numbers 9-1-1.

Unity of Texas 9-1-1 Districts

As demands and challenges on 9-1-1 have increased, so has the cooperative effort among the Texas 9-1-1 districts, which comprise the Texas 9-1-1 Alliance. Through interlocal agreements, the Texas 9-1-1 Alliance is made up of about twenty of the twenty-four 9-1-1 districts in Texas and combines the districts' resources to address a wide variety of projects—from regulatory issues and filings to advance technological issues, such as the integration of new types of communication devices with the 9-1-1 systems. Although the districts have differing priorities, the common goal remains: to administer the most efficient, technologically-advanced 9-1-1 service, incorporating new technologies and programs which enhance the ability of public safety agencies to respond quickly to citizens' emergencies.

Contacting GHC 9-1-1

This financial report is designed to provide a general overview of GHC 9-1-1's finances. If you have questions, contact GHC 9-1-1 at 602 Sawyer St. Suite 710, Houston, Texas 77007.

Greater Harris County 9-1-1 Emergency Network

STATEMENT OF NET ASSETS

As Of December 31, 2008 And 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets-Unrestricted:		
Cash & Cash Equivalents (Note 3)	\$ 7,517,020	\$ 9,512,507
Investments (Note 3)	19,061,354	17,939,266
Accounts Receivable (Note 2)	4,922,159	4,505,972
Accrued Interest Receivable	83,200	51,885
Deferred Charges-Current Portion	2,244,528	4,049,614
Prepaid Expenses	64,540	26,426
Total Current Assets	<u>33,892,801</u>	<u>36,085,670</u>
Capital Assets		
Inventoried Equipment (Note 5)	21,928,329	20,076,545
Land	2,708,879	2,686,684
Construction Work in Progress-Building	5,478,326	177,545
Less: Accumulated Depreciation And Amortization	<u>(17,984,180)</u>	<u>(15,942,231)</u>
Total Capital Assets, Net	<u>12,131,354</u>	<u>6,998,543</u>
Deferred Charges, Net Of Current Portion (Note 8)	<u>1,103,636</u>	<u>3,027,998</u>
TOTAL ASSETS	<u>47,127,791</u>	<u>46,112,211</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,628,878	4,638,172
Salary And Accrued Benefits Payable	346,098	228,670
Bonds Payable-Current Portion (Note 6)	532,937	2,771,166
Total Current Liabilities	<u>2,507,913</u>	<u>7,638,008</u>
Noncurrent Liabilities:		
Bonds Payable, Net Of Current Portion (Note 6)	<u>-</u>	<u>765,698</u>
TOTAL LIABILITIES	<u>2,507,913</u>	<u>8,403,706</u>
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	12,131,354	6,998,543
Unrestricted	27,709,044	26,388,697
Restricted	4,779,480	4,321,265
TOTAL NET ASSETS	<u>\$ 44,619,878</u>	<u>\$ 37,708,505</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

Greater Harris County 9-1-1 Emergency Network

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For The Years Ending December 31, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
9-1-1 Network Service Fees	\$ 35,119,517	\$ 33,505,741
Less: Administrative Fees	(339,044)	(330,657)
Net Operating Revenues	<u>34,780,473</u>	<u>33,175,084</u>
 Operating Expenses:		
Salaries and Benefits	3,303,337	3,128,988
Office Supplies	60,390	70,297
Public Education Materials	112,674	97,064
Fees and Services (Note 9)	21,707,168	23,632,006
Advertising (Note 2)	239,230	233,517
Rentals	823,538	425,336
Utilities	272,777	271,793
Training and Travel	294,330	368,461
Subtotal	<u>26,813,444</u>	<u>28,227,462</u>
Depreciation	2,028,337	2,008,240
Amortization	13,612	21,121
Total Operating Expenses	<u>28,855,393</u>	<u>30,256,823</u>
Operating Income	<u>5,925,080</u>	<u>2,918,261</u>
 Nonoperating Revenues (Expenses):		
Interest Earnings	1,025,560	1,461,000
Interest Expense	(79,234)	(207,598)
Miscellaneous Income	39,967	84,958
Total Nonoperating Revenues	<u>986,293</u>	<u>1,338,360</u>
Change in Net Assets	6,911,373	4,256,621
Net Assets - Beginning Of Year	<u>37,708,505</u>	<u>33,451,884</u>
Net Assets - End Of Year	<u>\$ 44,619,878</u>	<u>\$ 37,708,505</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENTS OF CASH FLOW

For The Years Ending December 31, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Cash Received From Fees	\$ 34,322,258	\$ 33,090,942
Cash Payments For Goods And Services	(24,710,401)	(23,958,252)
Cash Payments To Employees For Services	(3,185,909)	(3,024,339)
Net Cash Provided (Used) By Operating Activities	<u>6,425,948</u>	<u>6,108,351</u>
Cash Flows From Noncapital Financing Activities:		
Other Revenue	39,967	84,958
Payment of Bond Debt Service	(3,003,927)	(4,396,094)
Payment of Bond Debt Interest	(79,234)	(232,227)
Net Cash From Noncapital Financing Activities	<u>(3,043,194)</u>	<u>(4,543,363)</u>
Cash Flows From Capital And Related Financing Activities:		
Acquisition Of Capital Assets	(7,174,760)	(5,621,278)
Use of Deferred Charges	1,924,362	4,036,611
Net Cash Used For Capital And Related Financing Activities	<u>(5,250,398)</u>	<u>(1,584,667)</u>
Cash Flows From Investing Activities:		
Investment Purchase	(33,211,397)	(74,081,953)
Investment Maturity	32,089,309	75,528,211
Interest Received	994,245	1,413,669
Net Cash Flows Used From Investing Activities	<u>(127,843)</u>	<u>2,859,927</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(1,995,487)	2,840,248
Cash And Cash Equivalents - Beginning of Year	9,512,507	6,672,259
Cash And Cash Equivalents - End of Year	<u>\$ 7,517,020</u>	<u>\$ 9,512,507</u>

Reconciliation of Operating Income to Net Cash Provided By Operating Activity

Operating Income	<u>\$ 5,925,080</u>	<u>\$ 2,918,261</u>
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	2,028,337	2,008,240
Amortization	13,612	21,121
Change In Assets And Liabilities:		
Decrease (Increase) In Accounts Receivables	(416,187)	(61,308)
Decrease (Increase) In Prepaids	(38,114)	10,379
Decrease (Increase) In Deferred Charges	1,805,086	382,219
Increase (Decrease) In Accounts Payable	(3,009,294)	724,790
Increase (Decrease) In Salaries and Accrued Benefits Payable	117,428	104,649
Total Adjustments	<u>500,868</u>	<u>3,190,090</u>
Net Cash Provided By Operating Activities	<u>\$ 6,425,948</u>	<u>\$ 6,108,351</u>

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Greater Harris County 9-1-1 Emergency Network (GHC 9-1-1) is a special purpose communications district, authorized by the 9-1-1 Emergency Number Act of May 10, 1983 (Texas Revised Civil Statutes Annotated, Art. 1432c), and confirmed by the voters of Harris County on November 11, 1983 (Legislation now codified as Chapter 772, Subchapter B, of the Texas Health and Safety Code).

GHC 9-1-1 was organized on April 1, 1984 with the appointment of an executive director by the Board of Managers. The purpose of GHC 9-1-1 is to establish and administer the primary emergency telephone service in the greater Harris and Fort Bend County area. The 9-1-1 system service became operational in January 1986.

GHC 9-1-1 provides 9-1-1 equipment, a 24/7 Command Center, in-house maintenance and support of all 9-1-1 systems, database management services, and other GHC 9-1-1 equipment used by the forty-nine cities and two counties (Harris and Fort Bend Counties), served by GHC 9-1-1, to receive and process the initial 9-1-1 emergency call from their citizens.

GHC 9-1-1 levies service fees on users of telecommunications devices within the participating jurisdictions in GHC 9-1-1 territory. The wireline telephone companies and private switch providers serving GHC 9-1-1 territory collect the fees and transmit them to GHC 9-1-1, while the wireless service providers collect the fees and transmit them to the State Comptroller, which distributes the fees as described below.

The following fees were levied for 2008 and 2007:

Wireline:

Residential: a flat rate of \$.50 per line per month

Business: a flat rate of \$.80 per line and \$.87 per trunk per month, up to 100 lines per company location

Internet Protocol: a flat rate of \$.50 per subscriber

Wireless:

During the 75th State Legislative Session, the fee was set at a statewide flat rate of \$.50 per subscriber number per month effective September 1997. The flat fee is billed and collected by all wireless providers in Texas, transmitted to the State Comptroller, and distributed within 15 days of receipt to all 9-1-1 entities in the state, distribution to be by population of citizens served by each 9-1-1 entity as a percentage of the total State population (population counts provided by Texas A&M University).

The landline telephone companies and wireless carriers are permitted to retain 1% of the collected 9-1-1 fees as an administrative fee to cover their cost of collection. The fees collected in any one calendar quarter by the telephone companies are due thirty (30) days after the last day of the calendar month. AT&T and Sprint telephone companies adjust their estimated uncollectible rate on a quarterly basis for 9-1-1 fees not collected; other telephone companies adjust on an annual basis.

The Federal Communication Commission ("FCC") on June 12, 1996 issued regulations pursuant to FCC Docket No. 94-102, which required the wireless industry to provide to the 9-1-1 entities a true call back number by 1998 (Phase I) and location identification no later than October, 2002 (Phase II), depending on the technology adopted by the wireless carriers. All wireless carriers serving GHC 9-1-1's territory are Phase II compliant and will continue to modify the system on an ongoing basis to improve accuracy. It is the responsibility of the carriers to meet FCC requirements.

Through an interlocal agreement, Harris County provides to GHC 9-1-1 payroll services provided by the Harris County Auditor, purchasing services by the Harris County Purchasing Agent, staffing of the Harris County Public Safety Answering Point (PSAP) by the Sheriff's Department, and legal services by the Harris County Attorney's Office.

GHC 9-1-1 also has an interlocal agreement with the City of Houston to fund staffing and other administrative expenses of the City of Houston PSAP, known as Houston Emergency Center (HEC), while the management responsibility remains with the City, as with Harris County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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(A) Financial Statements

The financial statements of GHC 9-1-1 have been prepared in conformity with generally accepted accounting principles (GAAP) as accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GHC 9-1-1's significant accounting and reporting policies are described in the following notes to the financial statements.

GHC 9-1-1 applies all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

GHC 9-1-1 adopted GASB No. 40, "Deposit and Investment Risk Disclosures" as of December 31, 2004. This statement rescinds and supersedes certain GASB No. 3 disclosures, while adding additional disclosures

(B) Basis of Presentation and Accounting

GHC 9-1-1 represents its financials as an enterprise fund. Enterprise funds are proprietary funds used to account for operations in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized and recorded when they are incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of GHC 9-1-1's enterprise fund is charged to customers on their telecommunication services bills. Operating expenses for GHC 9-1-1 include the cost of network connectivity services, operation and maintenance services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(C) Property and Equipment

Property and equipment are stated at historical cost. Depreciation is determined using the straight-line method at rates expected to amortize the cost of depreciable properties over estimated useful lives of 7 years for furniture and fixtures, 3 to 10 years for equipment. Property and equipment purchases and improvements with a cost greater than \$1,000 are capitalized.

(D) Compensated Absences

Accumulated compensated absences for the employees of GHC 9-1-1 are recorded as an expense and liability as the benefits accrue. During 2006, the vacation policy was modified allowing employees to accrue vacation time every pay period, subject to maximum balance caps—the vacation time earned each pay period and maximum balance caps vary based on the years of service. The maximum balance caps range from 120 hours for new hires to 280 hours for employees with over 25 years of service. The liability for vacation time is based on estimated hours accrued for all employees as of the end of the year. The liability for compensated absences is defined as the total hours worked in excess of any employee's required time (40 hours per week), not to exceed a total accumulation of 240 hours. The liability for vacation and compensatory time was \$224,323 and \$138,784 as of December 31, 2008 and 2007, respectively.

(E) Accounts Receivable

Accounts receivable and grants receivable are recorded net of allowance for uncollectibles. There were no allowances for uncollectibles for the year ending December 31, 2008 and 2007.

(F) Statement of Cash Flows

For purposes of the statement of cash flows, GHC 9-1-1 considers only money market funds as cash equivalents. All other short-term securities are classified as investments.

(G) Estimates

The preparation of financial statements in conformity with GAAP as accepted in the United States of America requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

(H) Advertising Expense

Education advertising campaign costs are expensed as incurred and are reflected in the income statement.

(I) Equity Classifications

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

GHC 9-1-1 first applies restricted resources toward an expense incurred for purposes for which both restricted and unrestricted net assets are available. Restricted net assets include \$3,448,573 of wireless service fees receivable.

(J) Budget

In accordance with GHC 9-1-1's enabling legislation, the Board of Managers adopts an annual budget for operating and capital expenditures. The budget is adopted on a cash basis and is submitted to the Harris County Commissioners Court and the Houston City Council for approval.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

(A) Cash and Cash Equivalents

State statutes authorize GHC 9-1-1 to invest in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, commercial paper, money market mutual funds and fully collateralized repurchase agreements. GHC 9-1-1's book value of cash and cash equivalents totaled \$7,517,020 and \$9,512,507 as of December 31, 2008 and 2007, respectively.

Custodial credit risk related to deposits is the risk that, in the event of a bank failure, GHC 9-1-1's deposits might not be recovered. It is the policy of GHC 9-1-1 that all deposited funds in each of GHC 9-1-1's accounts be insured by the Federal Depository Insurance Coverage, or its successor, or secured by collateral pledged to the extent of the fair market value of the amount not insured in compliance with the Collateral Act of Chapter 2256 of the Texas Government Code. As of December 31, 2008, GHC 9-1-1 had a bank balance of \$10,965,714 in the checking and money market sweep accounts. The entire cash equivalent portion of the bank balance was held in the money market sweep account. The money market sweep account is made up of investments of US treasury securities.

(B) Investments

Custodial credit risk related to investments is the risk that GHC 9-1-1 will not be able to recover the value of investments or collateral securities that are in possession of an outside party if the counterparty to the transaction fails. Portfolio diversification is employed as an investment policy to control this risk. As of December 31, 2008, GHC 9-1-1 had three FHLB and FNMA notes recorded at amortized cost totaling \$19,061,354. Cost approximates fair value on the investment notes with maturity dates ranging from three and a half months to one year and five months.

As of December 31, 2007, GHC 9-1-1 had three uninsured, but registered, investments securities totaling \$17,939,266; two investments were commercial paper with maturity dates less than five months recorded at an amortized cost totaling \$12,840,179. All commercial paper investments held as of December 31, 2007, carry Standard & Poor's investment credit rating of A-1+. The other investment included one FNMA note recorded at cost totaling \$5,099,087. Cost approximates fair value on the investment note which matures within 23 months.

NOTE 4 - EMPLOYEE PENSION PLAN

Plan Description

GHC 9-1-1 provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide multiple-employer public employee retirement system consisting of 509 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report

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(CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

GHC 9-1-1 also participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by TCDRS. The plan is referred to as the Supplemental Death Benefit Fund (SDBF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a post employment benefit other than pension benefit. Retired employees are insured for \$5,000.

Funding Policy

GHC 9-1-1 has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually, which was 11.57% for calendar year 2008. The deposit rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

An annual actuarial valuation is also performed for the SDBF to determine the contractual rate by using the unit credit method for providing one-year term life insurance. GHC 9-1-1 contributions to the SDBF for the years ended December 31, 2008 and 2007, were \$4,597 and \$3,852, respectively, which equaled the contractually required contributions each year.

Annual Pension Cost

For the employer's accounting years ending December 31, 2008 and 2007, the annual pension cost for the TCDRS plan for its employees and the actual contributions totaled \$282,532 and \$269,711, respectively.

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The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2007, the basis for determining the contribution rate for calendar year 2008. The December 31, 2007, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/05	12/31/06	12/31/07
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period	20	15	15
Asset valuation method	long-term appreciation with adjustment	SAF:10-yr smoothed value, ESF: Fund value	SAF:10-yr smoothed value, ESF: Fund value
Actuarial Assumptions:			
Investment return ¹	8.0%	8.0%	8.0%
Projected salary increases ¹	5.5%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	-	-	-

¹Includes inflation at the stated rate

Trend Information

for the Retirement Plan for the Employees of Greater Harris County 9-1-1 Emergency Network

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/06	\$232,523	100%	\$ -
12/31/07	\$269,711	100%	\$ -
12/31/08	\$282,532	100%	\$ -

Schedule of Funding Progress for the Retirement Plan

for the Employees of Greater Harris County 9-1-1 Emergency Network

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ¹ (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/05	\$2,234,972	\$2,697,032	\$462,060	82.87%	\$1,977,153	23.37%
12/31/06	2,790,443	3,201,503	411,060	87.16%	2,009,703	20.45%
12/31/07	3,346,571	3,786,512	439,941	88.38%	2,306,024	19.08%

¹The annual covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.

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NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance at 1/1/08	Additions	Retirements	Balance at 12/31/08
Equipment	\$18,804,939	\$ 1,851,784	\$ -	\$20,656,723
Furniture & Fixtures	872,838	-	-	872,838
Land	2,686,684	22,195	-	2,708,879
Construction Work In Progress-Building	177,545	5,300,781	-	5,478,326
Leasehold Improvements	398,768	-	-	398,768
Total Fixed Assets	22,940,774	7,174,760	-	30,115,534
Less: Equipment Accumulated Depreciation	(14,720,322)	(2,027,665)	-	(16,747,987)
Less: Furniture & Fixture Accumulated Depreciation	(872,166)	(672)	-	(872,838)
Less: Leasehold Improvement Accumulated Amortization	(349,743)	(13,612)	-	(363,355)
Total Accumulated Depreciation/Amortization	(15,942,231)	(2,041,949)	-	(17,984,180)
Net Capital Assets	\$ 6,998,543	\$5,132,811	\$ -	\$12,131,354

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance at 1/1/07	Additions	Retirements	Balance at 12/31/07
Equipment	\$ 16,768,419	\$ 2,757,048	(\$ 720,528)	\$18,804,939
Furniture & Fixtures	872,838	-	-	872,838
Land	-	2,686,684	-	2,686,684
Construction Work In Progress-Building	-	177,545	-	177,545
Leasehold Improvements	398,768	-	-	398,768
Total Fixed Assets	18,040,025	5,621,277	(720,528)	22,940,774
Less: Equipment Accumulated Depreciation	(13,467,492)	(1,973,358)	720,528	(14,720,322)
Less: Furniture & Fixture Accumulated Depreciation	(837,284)	(34,882)	-	(872,166)
Less: Leasehold Improvement Accumulated Amortization	(328,622)	(21,121)	-	(349,743)
Total Accumulated Depreciation/Amortization	(14,633,398)	(2,029,361)	720,528	(15,942,231)
Net Capital Assets	\$ 3,406,627	\$3,591,916	\$ -	\$ 6,998,543

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NOTE 6- BONDS PAYABLE

On March 24, 2004, December 30, 2004, and June 2, 2005, GHC 9-1-1 issued Revenue Refunding Bonds, Series 2004-A, Series 2004-B, and Series 2004-C respectively, with original amounts totaling \$5,059,230, \$6,056,305, and \$5,116,200, respectively, to finance a portion of the wireless cost recovery funding for Phase I and II wireless location technology services discussed in Notes 1 and 8. GHC 9-1-1's portion of the wireless 9-1-1 Emergency Service Fee revenue described in Note 1 is pledged for the payment of the Bonds Series 2004-A, which matured March 1, 2008 and Series 2004-B, and Series 2004-C, which will mature January 1, 2009, and June 1, 2009, respectively, with interest on the bonds at rates of 2.7085%, 3.5730%, and 4.0150%, respectively. The following summarizes activity in bonds payable for the year ended December 31, 2008.

Bond	Balance at 1/1/2008	Additions	Reductions	Balance at 12/31/2008	Amount Due Within One Year
Series 2004-A	\$ 210,801	\$ -	\$ 210,801	\$ -	\$ -
Series 2004-B	1,514,076	-	1,514,076	-	-
Series 2004-C	1,811,987	-	1,279,050	532,937	532,937

The remaining debt service payments to maturity during the year 2009 for Revenue Refunding Bond Series 2004-C will total \$532,938 for principal and \$5,349 for interest.

NOTE 7- OPERATING LEASES

GHC 9-1-1 has a lease agreement for building space to house GHC 9-1-1's administrative staff and an offsite collocation lease to house critical redundant systems. A schedule of future operating lease payments as of December 31, 2008 is as follows:

Year	Amount
2009	\$ 524,052
2010	525,552
2011	525,552
2012	416,336
2013	<u>44,499</u>
Total future lease payments	<u>\$2,035,991</u>

NOTE 8 - COMMITMENTS

GHC 9-1-1 has contracts for installation, maintenance and support services with Data Foundry, Grubb and Ellis Management Inc., AT&T, and Plant Equipment, Inc. reflected as "Deferred Charges" in the accompanying financial statements. A portion of the unamortized deferred charge balance is for second-tier maintenance support services, provided by Plant Equipment, Inc., which expired July 31, 2006 and was renewed for an additional five-year term expiring July 31, 2011.

The FCC mandate described in Note 1, above, requires GHC 9-1-1 to provide cost recovery funding to the wireless carriers deploying wireless location technology within the Harris and Fort Bend County area. GHC 9-1-1 has contracts with some telecommunication service providers which requested cost recovery for five years of 9-1-1 wireless location service. The funding commitments made, to date, are also recorded as "Deferred Charges" and are amortized over a five-year period in

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the accompanying financial statements. The following table details by vendor the total deferred charges presented in the balance sheet.

<u>Vendor</u>	<u>Amount</u>
Data Foundry	\$ 12,267
Grubb and Ellis	735
AT&T	134,592
PEI	1,783,665
Wireless Carriers	1,416,905
 Total	 <u>\$ 3,348,164</u>

GHC 9-1-1's bank depository pledge contract includes a line of credit with a maximum of \$1,000,000, for payment of current year budgeted expenses. Any loan made under the line of credit is to be repaid in the calendar year made. The line of credit was not used during 2008 or 2007.

NOTE 9 - FEES AND SERVICES

In the accompanying "Statements Of Revenue, Expenses And Changes In Net Assets", the amounts reported as Fees and Services include major expense components outlined below for the years ending December 31. This note is provided as supplemental information to outline those general components included in the amounts reported as Fees and Services.

<u>Expense</u>	<u>2008</u>	<u>2007</u>
Network/Connectivity Services	\$ 6,662,717	\$10,195,449
PSAP Operations	12,382,913	10,788,911
IT Operations	331,078	289,430
Maintenance, Legal, and Other Services	1,664,030	1,874,939
Insurance and Vehicle	477,247	298,591
Miscellaneous Other	189,183	184,686
Total	<u>\$21,707,168</u>	<u>\$23,632,006</u>

NOTE 10 - ECONOMIC DEPENDENCE

A majority of GHC 9-1-1's service fee revenue is generated through its primary service supplier.