

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

**Financial Statements and Auditor's Report  
December 31, 2007 and 2006**

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

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2000 Loop 197 North,  
Suite 200  
Texas City, TX 77590

(409) 948-4406  
Fax (409) 948-0364  
www.null-lairson.com

11 Greenway Plaza, Suite 1515  
Houston, TX 77046  
(713) 621-1515

402 20<sup>th</sup> Street  
Galveston, TX 77550  
(409) 762-8380

## 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 and the related statements of revenues, expenses and changes in net assets and cash flows of the Greater Harris County 9-1-1 Emergency Network, as of and for the year ended December 31, 2007. These financial statements are the responsibility of Greater Harris County 9-1-1 Emergency Network's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Greater Harris County 9-1-1 Emergency Network as of December 31, 2006, were audited by other auditors whose report dated March 22, 2007, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Greater Harris County 9-1-1 Emergency Network, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2008, on our consideration of the Greater Harris County 9-1-1 Emergency Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 2 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the additional information. However, we did not audit the information and express no opinion on it.

*Null-Lairson, PC*

Houston, Texas  
May 28, 2008

## 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, 2007. 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 increased by \$2.8 million to \$27.5 million, due to rescheduling the replacement of existing hardware equipment and a delay in contract negotiations for wireless location services. 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 1.4% due to an increase in service fee revenue.
- The increase of \$2.0 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 early warning system.
- GHC 9-1-1 purchased land and 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 2005 and 2004, to finance a portion of the wireless cost recovery funding for 9-1-1 wireless location services. The bonds payable balance totaled \$3.5 million—the decrease of \$4.4 million is due to the scheduled debt service payments.
- The 9-1-1 service fee revenue increased by \$1.9 million or 5.9% due to an increase in wireless service fee revenue resulting from an anticipated 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 an increase in expenses of \$1.8 million. The increase was due to Public Safety Answering Point ("PSAP") expenses 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 79<sup>th</sup> 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 12.7% (\$37.7 million compared to \$33.5 million). The \$4.2 million increase will be used to fund future capital and operating expenditures.

**Table 1**  
**Net Assets**  
(in Millions)

	2007	2006
Current Assets	\$ 36.1	\$ 35.0
Capital and Other Assets	10.0	10.4
Total Assets	<u>\$ 46.1</u>	<u>\$ 45.4</u>
Current Liabilities	\$ 7.6	\$ 8.1
Noncurrent Liabilities	.8	3.9
Total Liabilities	<u>\$ 8.4</u>	<u>\$ 12.0</u>
Net Assets:		
Invested in Capital, Net of Debt	\$ 7.0	\$ 3.4
Unrestricted	26.4	27.4
Restricted	4.3	2.6
Total Net Assets	<u>\$ 37.7</u>	<u>\$ 33.4</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)

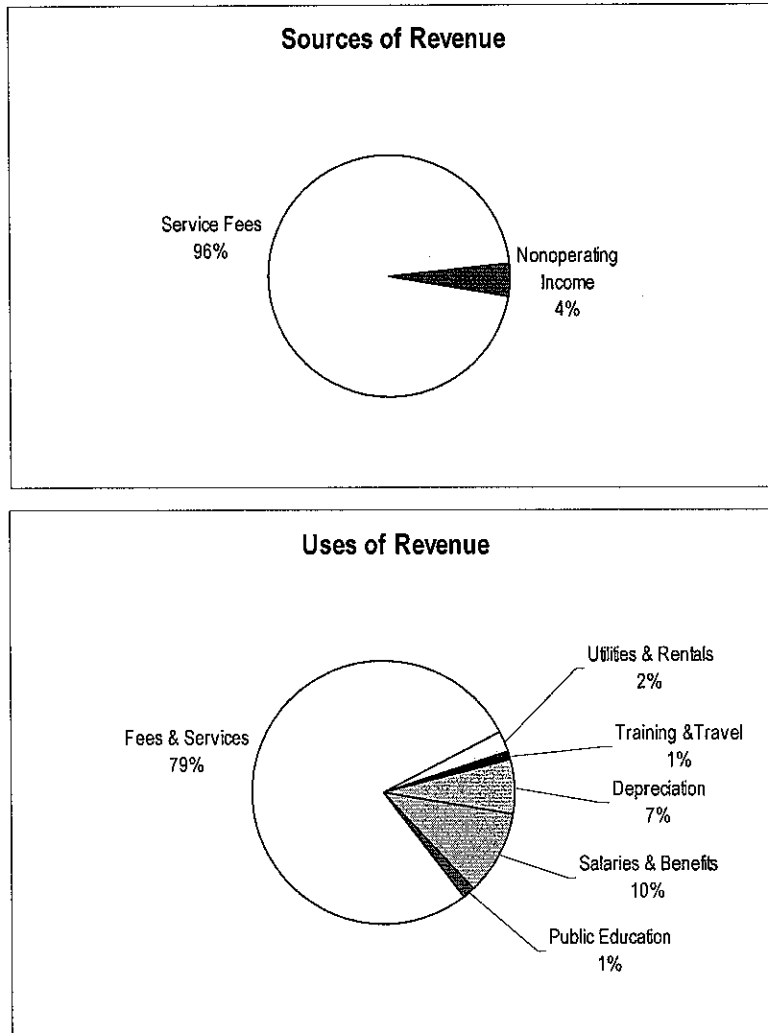
	2007	2006
Revenues:		
Net Operating Revenues	\$ 33.2	\$ 31.3
Interest and Nonoperating Income	1.6	1.4
Total Revenues	<u>34.8</u>	<u>32.7</u>
Expenses:		
Operating Expense	30.3	28.2
Interest Expense	0.2	0.3
Total Expenses	<u>30.5</u>	<u>28.5</u>
Change in Net Assets—Excess of Revenues Over Expenses	<u>4.3</u>	<u>4.2</u>
Net Assets - Beginning Of Year	<u>33.4</u>	<u>29.2</u>
Net Assets - End Of Year	<u>\$ 37.7</u>	<u>\$ 33.4</u>

In Table 2, above, net operating revenues increased by 5.9% (\$1.9 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.

Net operating expenses increased by 7.3% (\$2.1 million) primarily due to the increase in call taker position funding at the HEC PSAP, which are managed by HEC. The increase in call takers at the HEC was necessary due to the increase in 9-1-1 call volume. 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**  
**Change in Net Assets Charts**



The "Service Fees" (96%) category is the main source of funding, while 79% 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 10% 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 services, such as VoIP, 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 devices such as VoIP 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 VoIP service providers have worked with 9-1-1 entities to integrate 9-1-1 VoIP calls into the existing 9-1-1 system; however, integration challenges remain between 9-1-1 and VoIP 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 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 VoIP 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 20+ 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 4.3 million citizens, GHC 9-1-1 acquired land and began construction of its new headquarters that will house GHC 9-1-1's staff. In addition, the building will serve as a training center and a backup PSAP. 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—approaching 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**

#### VoIP Solutions

GHC 9-1-1 was instrumental in the development of FCC Docket WC 05-196 known as the “VoIP 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 VoIP 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 formed the Texas 9-1-1 Alliance. 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

**BALANCE SHEETS**

As Of December 31, 2007 And 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current Assets-Unrestricted:		
Cash & Cash Equivalents (Note 3)	\$ 9,512,507	\$ 6,672,259
Investments (Note 3)	17,939,266	19,385,525
Accounts Receivable (Note 2)	4,505,972	4,444,664
Accrued Interest Receivable	51,885	4,554
Deferred Charges-Current Portion	4,049,614	4,431,833
Prepaid Expenses	26,426	36,805
Total Current Assets	<u>36,085,670</u>	<u>34,975,640</u>
Capital Assets		
Inventoried Equipment (Note 5)	20,076,545	18,040,025
Land	2,686,684	-
Construction Work in Progress-Building	177,545	-
Less: Accumulated Depreciation And Amortization	<u>(15,942,231)</u>	<u>(14,633,398)</u>
Total Capital Assets, Net	<u>6,998,543</u>	<u>3,406,627</u>
Deferred Charges, Net Of Current Portion (Note 8)	<u>3,027,998</u>	<u>7,064,609</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 46,112,211</u></u>	<u><u>\$ 45,446,876</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable	\$ 4,638,172	\$ 3,913,382
Salary And Accrued Benefits Payable	228,670	124,021
Interest Payable	-	24,629
Bonds Payable-Current Portion (Note 6)	<u>2,771,166</u>	<u>4,057,934</u>
Total Current Liabilities	<u>7,638,008</u>	<u>8,119,966</u>
Noncurrent Liabilities:		
Bonds Payable, Net Of Current Portion (Note 6)	<u>765,698</u>	<u>3,875,026</u>
Total Liabilities	<u>8,403,706</u>	<u>11,994,992</u>
<b>NET ASSETS</b>		
Invested In Capital Assets, Net of Related Debt	6,998,543	3,406,627
Unrestricted	26,388,697	27,430,439
Restricted	<u>4,321,265</u>	<u>2,614,818</u>
Total Net Assets	<u>37,708,505</u>	<u>33,451,884</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 46,112,211</u></u>	<u><u>\$ 45,446,876</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For The Years Ending December 31, 2007 And 2006

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues:</b>		
9-1-1 Network Service Fees	\$ 33,505,741	\$ 31,632,152
Less: Administrative Fees	(330,657)	(317,939)
Net Operating Revenues	<u>33,175,084</u>	<u>31,314,213</u>
 <b>Operating Expenses:</b>		
Salaries and Benefits	3,128,988	2,626,756
Office Supplies	70,297	62,761
Public Education Materials	97,064	93,560
Fees and Services (Note 9)	23,632,006	21,880,425
Advertising (Note 2)	233,517	224,676
Rentals	425,336	394,737
Utilities	271,793	272,366
Training and Travel	368,461	249,087
Subtotal	<u>28,227,462</u>	<u>25,804,368</u>
Depreciation	2,008,240	2,336,039
Amortization	21,121	51,187
Total Operating Expenses	<u>30,256,823</u>	<u>28,191,594</u>
Operating Income	<u>2,918,261</u>	<u>3,122,619</u>
 <b>Nonoperating Revenues (Expenses):</b>		
Interest Earnings	1,461,000	1,262,199
Interest Expense	(207,598)	(348,913)
Miscellaneous Income	84,958	157,066
Total Nonoperating Revenues	<u>1,338,360</u>	<u>1,070,352</u>
Change in Net Assets	4,256,621	4,192,971
<b>Net Assets - Beginning Of Year</b>	<u>33,451,884</u>	<u>29,258,913</u>
<b>Net Assets - End Of Year</b>	<u>\$ 37,708,505</u>	<u>\$ 33,451,884</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**STATEMENTS OF CASH FLOW**

For The Years Ending December 31, 2007 And 2006

	<u>2007</u>	<u>2006</u>
<b>Cash Flows From Operating Activities:</b>		
Cash Received From Fees	\$ 33,090,942	\$ 30,953,382
Cash Payments For Goods And Services	(23,958,252)	(21,169,576)
Cash Payments To Employees For Services	(3,024,339)	(2,639,835)
Net Cash Provided (Used) By Operating Activities	<u>6,108,351</u>	<u>7,143,971</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Other Revenue	84,958	157,066
Payment of Bond Debt Service	(4,396,094)	(3,719,773)
Payment of Bond Debt Interest	(232,227)	(324,284)
Net Cash From Noncapital Financing Activities	<u>(4,543,363)</u>	<u>(3,886,991)</u>
<b>Cash Flows From Capital And Related Financing Activities:</b>		
Acquisition Of Capital Assets	(5,621,278)	(1,876,764)
Use of Deferred Charges	4,036,611	1,541,814
Net Cash Used For Capital And Related Financing Activities	<u>(1,584,667)</u>	<u>(334,950)</u>
<b>Cash Flows From Investing Activities:</b>		
Investment Purchase	(74,081,953)	(69,164,020)
Investment Maturity	75,528,211	66,782,220
Interest Received	1,413,669	1,297,009
Net Cash Flows Used From Investing Activities	<u>2,859,927</u>	<u>(1,084,791)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	2,840,248	1,837,239
Cash And Cash Equivalents - Beginning of Year	6,672,259	4,835,020
Cash And Cash Equivalents - End of Year	<u>\$ 9,512,507</u>	<u>\$ 6,672,259</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activity</b>		
<b>Operating Income</b>	<u>\$ 2,918,261</u>	<u>\$ 3,122,619</u>
<b>Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities:</b>		
Depreciation	2,008,240	2,336,039
Amortization	21,121	51,187
Change In Assets And Liabilities:		
Decrease (Increase) In Accounts Receivables	(61,308)	(249,415)
Decrease (Increase) In Grants Receivables	-	466,643
Decrease (Increase) In Prepays	10,379	14,034
Decrease (Increase) In Deferred Charges	382,219	(170,529)
Increase (Decrease) In Accounts Payable	724,790	1,586,472
Increase (Decrease) In Salaries and Accrued Benefits Payable	104,649	(13,079)
Total Adjustments	<u>3,190,090</u>	<u>4,021,352</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 6,108,351</u>	<u>\$ 7,143,971</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 became operational 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 County area. The 9-1-1 system serving all of Harris County and Fort Bend County 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-eight 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 telephone customers 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 the Network, 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 2007 and 2006:

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 serviced 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. The responsibility is on the carriers to meet FCC requirements.

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

GHC 9-1-1 also has an 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.

<b>NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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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 phone bills. Operating expenses for GHC 9-1-1 include the cost of telephone 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 \$138,784 and \$45,718 as of December 31, 2007 and 2006, 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, 2007 and 2006.

(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 \$3,003,805 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 \$9,512,507 and \$6,672,259 as of December 31, 2007 and 2006, 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, 2007, GHC 9-1-1 had a bank balance of \$13,687,554 in the checking and money market sweep accounts. The cash portion of the bank balance in excess of the \$100,000 federal depository insurance totaled \$340 which is uninsured and collateralized with securities held by the pledging financial institution's trust agent, but not in GHC 9-1-1's name. The cash equivalent portion of the bank balance held in the money market sweep account totaled \$13,587,214. 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, 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.

As of December 31, 2006, GHC 9-1-1 had five uninsured, but registered, investments securities totaling \$19,385,525; three investments were commercial paper with maturity dates less than three months recorded at an amortized cost totaling \$15,387,418. All commercial paper investments held as of December 31, 2006, carry Standard & Poor's investment credit ratings of either A-1+ or A-1. The other investments include one FHLB note and one FNMA note recorded at cost totaling \$3,998,107. Cost approximates fair value on the investment notes. These notes have maturity periods between 12 and 24 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 (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 11.80% for calendar year 2007. 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, 2007 and 2006, were \$3,852 and \$2,963, respectively, which equaled the contractually required contributions each year.

Annual Pension Cost

For the employer's accounting years ending December 31, 2007 and 2006, the annual pension cost for the TCDRS plan for its employees and the actual contributions totaled \$269,711 and \$232,523, 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, 2006, the basis for determining the contribution rate for calendar year 2007. The December 31, 2006, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/04	12/31/05	12/31/06
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, closed
Amortization period	20	20	15
Asset valuation method	long-term appreciation with adjustment	long-term appreciation with adjustment	SAF:10-yr smoothed value, ESF: Fund value
Actuarial Assumptions:			
Investment return <sup>1</sup>	8.0%	8.0%	8.0%
Projected salary increases <sup>1</sup>	5.5%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	-	-	-

<sup>1</sup>Includes 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	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Ending 12/31/05	\$238,085	100%	\$ -
12/31/06	\$232,523	100%	\$ -
12/31/07	\$269,711	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 <sup>1</sup> (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/04	\$2,028,205	\$2,482,239	\$454,034	81.71%	\$1,802,857	25.18%
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%

<sup>1</sup>The 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, 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	<u>18,040,025</u>	<u>5,621,277</u>	<u>(720,528)</u>	<u>22,940,774</u>
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	<u>(14,633,398)</u>	<u>(2,029,361)</u>	<u>720,528</u>	<u>(15,942,231)</u>
Net Capital Assets	<u>\$ 3,406,627</u>	<u>\$3,591,916</u>	<u>\$ -</u>	<u>\$ 6,998,543</u>

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance at 1/1/06	Additions	Retirements	Balance at 12/31/06
Equipment	\$ 21,678,011	\$ 1,809,916	(\$6,719,508)	\$16,768,419
Furniture & Fixtures	914,380	-	(41,542)	872,838
Leasehold Improvements	331,920	66,848	-	398,768
Total Fixed Assets	<u>22,924,311</u>	<u>1,876,764</u>	<u>(6,761,050)</u>	<u>18,040,025</u>
Less: Equipment Accumulated Depreciation	(18,024,597)	(2,162,403)	6,719,508	(13,467,492)
Less: Furniture & Fixture Accumulated Depreciation	(705,190)	(173,636)	41,542	(837,284)
Less: Leasehold Improvement Accumulated Amortization	(277,435)	(51,187)	-	(328,622)
Total Accumulated Depreciation/Amortization	<u>(19,007,222)</u>	<u>(2,387,226)</u>	<u>6,761,050</u>	<u>(14,633,398)</u>
Net Capital Assets	<u>\$ 3,917,089</u>	<u>(\$ 510,462)</u>	<u>\$ -</u>	<u>\$ 3,406,627</u>

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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, Series 2004-B, and Series 2004-C, which mature March 1, 2008, 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, 2007.

Bond	Balance at 1/1/2007	Additions	Reductions	Balance at 12/31/2007	Amount Due Within One Year
Series 2004-A	\$ 1,581,010	\$ -	\$ 1,370,209	\$ 210,801	\$ 210,801
Series 2004-B	3,154,325	-	1,640,249	1,514,076	1,387,903
Series 2004-C	3,197,625	-	1,385,638	1,811,987	1,172,462

The following presents the debt service payments to maturity for Revenue Refunding Bond Series 2004-A, Series 2004-B, and Series 2004-C.

Year Ended December 31,	Principal	Interest
2008	\$ 2,771,166	\$ 76,715
2009	765,698	7,865
Total	\$ 3,536,864	\$ 84,580

**NOTE 7- OPERATING LEASES**

GHC 9-1-1 has a lease agreement for building space to house GHC 9-1-1's administrative staff. A schedule of future operating lease payments as of December 31, 2007 is as follows:

Year	Amount
2008	\$ 524,052
2009	524,052
2010	525,552
2011	525,552
2012-2013	460,835
Total future lease payments	\$2,560,043

**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,

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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 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	1,231
PEI	2,243,324
Wireless Carriers	<u>4,820,055</u>
 Total	 <u>\$ 7,077,612</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 2007 or 2006.

**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	\$10,195,449	\$8,933,711
PSAP Operations	10,788,911	9,915,014
IT Operations	289,430	340,725
Maintenance, Legal, and Other Services	1,874,939	2,143,182
Insurance and Vehicle	298,591	362,490
Miscellaneous Other	184,686	185,303
Total	<u>\$23,632,006</u>	<u>\$21,880,425</u>

**NOTE 10 - ECONOMIC DEPENDENCE**

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