Greater Harris County
9-1-1 Emergency Network

Financial Statements and Auditor's Report
December 31, 2011 and 2010

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

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of Greater Harris County 9-1-1 Emergency Network ("GHC 9-1-1"), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the entity's basic financial statements as listed in the table of contents. These financial statements are the responsibility of GHC 9-1-1's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 business-type activities of GHC 9-1-1, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, required pension system and other post-employment benefits disclosures be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Null-Lairson, P.C.

Houston, Texas
April 25, 2012

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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, 2011. 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 balances increased by $5.7 million to $24.0 million, as funds were reserved for future capital outlay. The funds will be used to pay for ongoing capital replacement, operations staff, and upgrades to the 9-1-1 infrastructure over the next five years.
- The increase of $3.1 million in inventoried assets is due to the normal capital replacement purchases and the deployment of the new antenna microwave system during 2011.
- The 9-1-1 service fee revenue increased by $1.5 million or 4.2% due to an increase in wireless service fee revenue resulting from the new 9-1-1 service fee on prepaid wireless phones effective June 1, 2010.
- Salaries and benefits increased due to a voluntary one-time payment totaling $400,000 to the employee retirement account. The increase is also due to the recognition of the Other Post Employment Benefit (OPEB) obligation totaling $468,194 The OPEB liability is an estimate of retiree health insurance benefit costs incurred through 2011, which will be paid when eligible employees retire in future years.
- The "Fees and Services" reflects a decrease in expenses totaling $3.4 million or 14.0%. The decrease was mainly due to the initial deployment cost during 2010 of the new frame network connectivity upgrades to increase the bandwidth of the Internet Protocol (IP) based infrastructure.

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-nine 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 Enhanced 9-1-1 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 12.5% ($55.6 million compared to $49.4 million). The $6.2 million increase in Net Assets is a result of GHC 9-1-1's efforts to establish a healthy reserve for capital outlay while pursuing and leveraging the best technology to reduce operating costs which will prepare GHC 9-1-1 to meet the growing demands on the 9-1-1 system.

Table 1
Net Assets
(in Millions)

	2011	2010
Current Assets	$ 30.6	$ 24.5
Capital and Other Assets	26.8	27.8
Total Assets	$ 57.4	$ 52.2
Current Liabilities	$ 1.8	$ 2.9
Long Term Liabilities	$ .5	$ -
Total Liabilities	$ 2.3	$ 2.9
Net Assets:		
Invested in Capital, Net of Debt	$ 26.7	$ 27.5
Unrestricted	28.4	21.9
Total Net Assets	$ 55.1	$ 49.4

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

Table 2
Change in Net Assets
(in Millions)

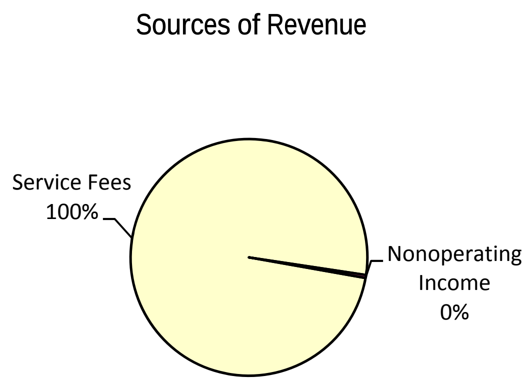
	2011	2010
Revenues:		
Net Operating Revenues	$ 37.2	$ 35.8
Interest and Nonoperating Income	0.2	0.1
Total Revenues	37.4	35.9
Expenses:		
Operating Expense	31.7	34.7
Total Expenses	31.7	34.7
Change in Net Assets—Excess of Revenues Over Expenses	5.7	1.1
Net Assets - Beginning Of Year	49.4	48.3
Net Assets - End Of Year	$ 55.1	$ 49.4

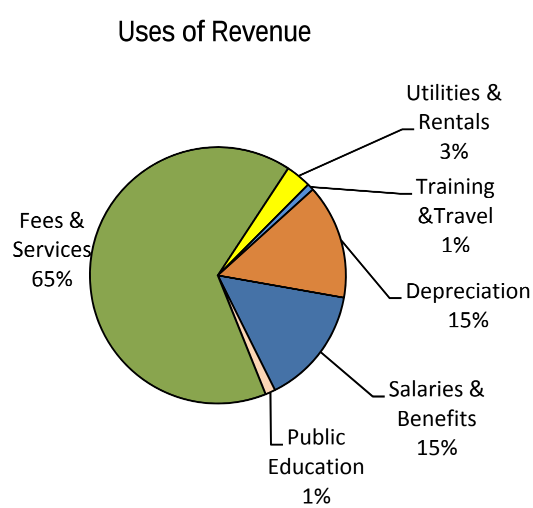
In Table 2, above, net operating revenues increased by 4.2% ($1.5 million) due to the new prepaid wireless service fees collected beginning effective June 1, 2010. The growth in 9-1-1 service fee revenue from prepaid wireless subscribers has offset the continued decreases in the legacy wireline revenue. The growth in the regular wireless 9-1-1 service fee has slowed due to market saturation—we expect the prepaid wireless service fee revenue to help maintain a healthy revenue stream.

Net operating expenses decreased by 8.7% ($3.0 million) primarily due to the initial deployment of the new frame network connectivity upgrades during prior year 2010—the new frame network includes an increase in the bandwidth of the Internet Protocol (IP) based infrastructure necessary to transport the 9-1-1 emergency call and associated data, and for system monitoring and maintenance.

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

Table 3





The “Service Fees” (100%) category is the main source of funding, while 66% 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 and 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 14% of the uses of revenue (see chart above)—this category includes mainly operational staff and administrative staff—the operational staff consist of technicians that 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 and opportunities 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 efficiently process the 9-1-1 emergency calls. GHC 9-1-1 participates as part of 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. 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 as technical standards are developed at the national level with input from the 9-1-1 industry, including GHC 9-1-1.

Communications consumer migration from traditional legacy landline service to other types of devices continues. 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 26+ years; however, integrating new communication services, available to everyone, with 9-1-1 is becoming more difficult. GHC 9-1-1 continues to prepare for the eventual 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 preparation will result in increased bandwidth to all PSAPs, which will allow participating jurisdictions to pass larger data files each entity needs in order to increase the efficiency and effectiveness in emergency response.

To continue providing the best 9-1-1 emergency service to its 4.9 million citizens and countless visitors, GHC 9-1-1 moved into the newly constructed headquarters during 2009. In addition to housing GHC 9-1-1 Staff, the building is designed to serve as a training center and a backup PSAP. The facility provides 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 and 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—in excess of 80% of all 9-1-1 calls—from wireless devices. 9-1-1 emergency callers are urged to "know your location" to help 9-1-1 call takers dispatch the emergency responders to the appropriate location. There are numerous factors (ie, weather, wireless signal interference, etc) that may affect the accuracy of the location of 9-1-1 wireless call.

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 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 proactively integrate 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 all 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 10220 Fairbanks N Houston Rd, Houston, Texas 77064.

Greater Harris County 9-1-1 Emergency Network

STATEMENT OF NET ASSETS

As Of December 31, 2011 And 2010

	2011	2010
ASSETS		
Current Assets-Unrestricted:		
Cash & Cash Equivalents (Note 3)	$ 4,524,816	$ 5,263,012
Investments (Note 3)	19,467,698	12,983,180
Accounts Receivable (Note 2)	5,321,102	5,455,043
Accrued Interest Receivable	29,696	5,928
Deferred Charges-Current Portion (Note 9)	57,530	281,672
Prepaid Expenses	1,178,648	479,839
Total Current Assets	30,579,490	24,468,674
Capital Assets		
Inventoried Assets (Note 6)	49,191,568	46,002,463
Land	2,708,879	2,708,879
Less: Accumulated Depreciation And Amortization	(25,204,658)	(21,216,607)
Total Capital Assets, Net	26,695,789	27,494,735
Deferred Charges, Net Of Current Portion (Note 9)	84,818	281,884
TOTAL ASSETS	57,360,097	52,245,293
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,470,773	2,488,689
Salary And Accrued Benefits Payable	325,523	372,463
Total Current Liabilities	1,796,296	2,861,152
Long Term Liabilities:		
Other Post Employment Benefits (Note 5)	468,194	-
TOTAL LIABILITIES	2,264,490	2,861,152
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	26,695,789	27,494,735
Unrestricted	28,399,818	21,889,406
TOTAL NET ASSETS	$ 55,095,607	$ 49,384,141

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, 2011 And 2010

	2011	2010
Operating Revenues:		
9-1-1 Network Service Fees	$ 37,621,329	$ 36,114,162
Less: Administrative Fees	(373,955)	(360,281)
Net Operating Revenues	37,247,374	35,753,881
Operating Expenses:		
Salaries and Benefits (Note 10)	4,707,953	3,950,422
Office Supplies	43,838	68,672
Public Education Materials	109,267	112,806
Fees and Services (Note 11)	20,703,936	24,107,018
Advertising (Note 2)	253,467	288,307
Rentals	512,536	675,392
Utilities	505,052	492,194
Training and Travel	267,152	270,175
Subtotal	27,103,201	29,964,986
Depreciation	4,575,206	4,739,128
Amortization	8,704	13,373
Total Operating Expenses	31,687,111	34,717,487
Operating Income	5,560,263	1,036,394
Nonoperating Revenues (Expenses):		
Interest Earnings	99,993	104,043
Miscellaneous Income	51,210	-
Total Nonoperating Revenues	151,203	104,043
Change in Net Assets	5,711,466	1,140,437
Net Assets - Beginning Of Year	49,384,141	48,243,704
Net Assets - End Of Year	$ 55,095,607	$ 49,384,141

The Accompanying Notes Are An Integral Part Of These Financial Statements

Greater Harris County 9-1-1 Emergency Network

STATEMENTS OF CASH FLOW

For The Years Ending December 31, 2011 And 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash Received From Fees	$ 37,283,703	$ 35,307,452
Cash Payments For Goods And Services	(23,790,219)	(24,328,268)
Cash Payments To Employees For Services	(4,754,893)	(3,938,239)
Net Cash Provided (Used) By Operating Activities	8,738,591	7,040,945
Cash Flows From Noncapital Financing Activities:		
Other Post Employment Benefits	468,194	-
Other Revenue	51,210	-
Net Cash From Noncapital Financing Activities	519,404	-
Cash Flows From Capital And Related Financing Activities:		
Acquisition Of Capital Assets	(3,784,964)	(2,236,806)
Use of Deferred Charges	197,066	212,928
Net Cash Used For Capital And Related Financing Activities	(3,587,898)	(2,023,878)
Cash Flows From Investing Activities:		
Investment Purchase	(22,504,860)	(30,796,084)
Investment Maturity	16,020,342	29,314,672
Interest Received	76,225	204,423
Net Cash Flows Used From Investing Activities	(6,408,293)	(1,276,989)
Net Increase (Decrease) In Cash And Cash Equivalents	(738,196)	3,740,078
Cash And Cash Equivalents - Beginning of Year	5,263,012	1,522,934
Cash And Cash Equivalents - End of Year	$ 4,524,816	$ 5,263,012

Reconciliation of Operating Income to Net Cash Provided By Operating Activity

	2011	2010
Operating Income	$ 5,560,263	$ 1,036,394
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	4,575,206	4,739,128
Amortization	8,704	13,373
Change In Assets And Liabilities:		
Decrease (Increase) In Accounts Receivables	133,941	(457,463)
Decrease (Increase) In Prepaids	(698,809)	(49,284)
Decrease (Increase) In Deferred Charges	224,142	527,514
Increase (Decrease) In Accounts Payable	(1,017,916)	1,219,100
Increase (Decrease) In Salaries and Accrued Benefits Payable	(46,940)	12,183
Total Adjustments	3,178,328	6,004,551
Net Cash Provided By Operating Activities	$ 8,738,591	$ 7,040,945

The Accompanying Notes Are An Integral Part Of These Financial Statements

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Greater Harris County 9-1-1 Emergency Network (GHC 9-1-1) is a special purpose emergency 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 8, 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 2011 and 2010:

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, if the service cannot be classified in any other class of service

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 and during the 81st State Legislative Session, as set forth in Texas Health & Safety Code Section 771.0712, a two (2%) percent prepaid wireless 9-1-1 emergency service fee became effective June 1, 2010. The fee is collected based on two percent of the purchase price of each prepaid wireless telecommunications service purchased by any method. Both fees are billed and collected by all wireless providers or retailers in Texas, transmitted to the State Comptroller, and distributed within 15 days of receipt to all 9-1-1 entities in the state, distribution is determined by the population of citizens which are 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 by the telephone companies are due thirty (30) days after the last day of the calendar month. AT&T adjusts it's estimated uncollectible rate on a monthly 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

(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.

(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. The vacation policy allows 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 $172,668 and $217,000 as of December 31, 2011 and 2010, 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, 20110 and 2010.

(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

Educational 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."

- When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, GHC 9-1-1's policy is to apply restricted net assets first

(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 $4,524,816 and $5,263,012 as of December 31, 2011 and 2010, 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, 2011, GHC 9-1-1 had a bank balance of $6,617,118 in the checking and money market sweep accounts. The checking account bank balance totaled $850,000 and $5,767,118 was held in the money market sweep account. The money market sweep account is made up of investments of US treasury securities—the entire checking account balance was covered under FDIC as authorized under the Dodd-Frank Act, which eliminated the FDIC $250,000 cap for non-interest bearing accounts.

(B) Investments

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes GHC 9-1-1 to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

GHC 9-1-1 investments are managed by the Harris County Office of Financial Services, as authorized by an interlocal agreement. GHC 9-1-1's Investment Policy is reviewed and approved annually by the GHC 9-1-1's Board of Managers. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies that address investment options and describes the priorities for suitable investments.

(B) Investments (continued)

Authorized Investments
GHC 9-1-1 funds may be invested in the following investment instruments provided that such instruments meet the guidelines of the investment policy:

1. Obligations of the U.S. or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, with a stated final maturity of 10 years or less.
4. Other obligations the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of this state or the U.S.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
6. Certificates of deposit issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state that are guaranteed or insured by the FDIC or secured by authorized investments that have a market value of not less than the principal amount of the certificates.
7. Fully collateralized repurchase agreements as authorized by the Public Funds Investment Act.
8. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
9. No-load money market mutual funds regulated by the SEC, with a dollar-weighted average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable net asset value of $1 per share as authorized by the Public Funds Investment Act.
10. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.
11. Public Funds Investment Pools as authorized by the Investment Act.

Summary of Cash and Investments
GHC 9-1-1's cash is recorded at fair value and investments are recorded at amortized cost. Total investment book value as of December 31, 2011 was less than total fair market value by $11,300, on the investments with maturity dates of one month to less than six months for commercial paper and less than one and a half years for a bond. The information below indicates the fair market value, percentage of portfolio, maturity value, and credit rating of GHC 9-1-1's investments as of December 31, 2011, summarized by security type.

	Security	Credit Rating (S&P/Moody's)	Amortized/Fair Market Value *	% of Portfolio	Maturity Amount
Commercial Paper	FCAR	A-1+/P-1	$ 7,977,026	33%	$ 8,000,000
Commercial Paper	TMCC	A-1+/P-1	10,490,673	44%	10,500,000
Bond	San Antonio	AA	1,000,000	4%	1,000,000
Money Market Sweep Accounts	US Treasury Securities	AAAm/Aaa	3,674,516	15%	3,674,516
Cash in Bank			850,000	4%	850,000
Petty Cash			300	0%	300
			$ 23,992,514	100%	$ 24,024,816

Risk Disclosures

Interest Rate Risk: All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that GHC 9-1-1 manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations. As of December 31, 2011, GHC 9-1-1 was in compliance with these guidelines to manage interest rate risk.

Credit Risk and Concentration of Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The GHC 9-1-1 mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 50% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimal. The GHC 9-1-1's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as A or its equivalent. Money market mutual funds and public funds investment pools must be rated Aaa by Moody's Investor Rating Service.

Custodial Credit Risk: 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.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. GHC 9-1-1 Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, GHC 9-1-1 is not exposed to foreign currency risk.

NOTE 4 - EMPLOYEE PENSION PLAN

(A) 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 602 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.

(B) 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 12.76% for calendar year 2011. 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, 2011 and 2010, were $5,583 and $6,220, respectively, which equaled the contractually required contributions each year.

(C) Annual Pension Cost

For the employer's accounting years ending December 31, 2011 and 2010, the annual pension cost for the TCDRS plan for its employees and the actual contributions totaled $771,177 and $369,038, respectively. A one-time $400,000 payment was made to TCDRS during December 2011 to increase the TCDRS plan asset balance for GHC 9-1-1 employees.

The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2011 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4 percent. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

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, 2010, the basis for determining the contribution rate for calendar year 2011. The December 31, 2010, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/08	12/31/09	12/31/10
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period	20	20	20
Asset valuation method	SAF:10-yr smoothed value, ESF: Fund value	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]	5.3%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	-	-	-

[1]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 Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	$323,235	100%	$ -
12/31/10	$369,038	100%	$ -
12/31/11	$771,177	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)
12/31/08	$3,748,490	$4,556,210	$807,720	82.27%	$2,462,100	32.81%
12/31/09	4,541,900	5,438,189	896,289	83.52%	2,799,730	32.01%
12/31/10	5,380,348	6,376,132	995,784	84.38%	2,988,263	33.32%

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

(D) Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 84.38% funded. The actuarial accrued liability for benefits was $6,376,132, and the actuarial value of assets was $5,380,348, resulting in an unfunded (or overfunded) actuarial accrued liability (UAAL) (or OAAL) of $995,784. The covered payroll (annual payroll of active employees covered by the plan) was $2,988,263, and the ratio of the UAAL (or OAAL) to the covered payroll was 33.32%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 5 - OTHER POST-EMPLOYEMENT BENEFITS (OPEB)

(A) Plan Description

GHC 9-1-1 voluntarily participates in the Harris County, Texas health insurance plan for the benefit of GHC 9-1-1's employees and retirees. Harris County administers an agent multiple-employer defined benefit post employment healthcare plan that covers retired employees of participating governmental entities which includes GHC 9-1-1. The plan provides medical, dental, vision, and basic life insurance benefits to plan members. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to Harris County Commissioners Court.
Membership in the Plan at March 1, 2009, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	3,361
Active plan members	14,841
Number of participating employers	5

(B) Funding Policy

Local Government Code Section 157.102 assigns to Harris County Commissioners Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The plan rates charged to retirees are set annually by Harris County Commissioners Court based on the combination of premiums and prior year costs of the self-funded portion of the plan. The plan is funded on a pay-as-you-go basis. For the year ended February 28, 2011, plan members or beneficiaries receiving benefits contributed $5.28 million, or approximately 13.6 percent of total benefits paid during the year. Participating employers contributed $33.59 million. The total contributions for the year ended February 28, 2011 were $38.87 million. Total contributions included actual medical claims paid, premiums for other insurance and administrative costs calculated through an annual rate calculation.

(C) Annual OPEB Cost and Net OPEB Obligation

Harris County's OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASBS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of Harris County's OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation for the year ended February 28, 2011:

(C) Annual OPEB Cost and Net OPEB Obligation (continued)

Annual required contribution (ARC)	$	91,445,740
Interest on net OPEB obligation		9,946,649
Adjustment to ARC		(12,940,876)
Annual OPEB cost (expense)		88,451,513
Contributions made		(33,588,280)
Increase in net OPEB obligation		54,863,233
Net OPEB obligation - beginning of the year		198,932,991
Net OPEB bligation - end of the year	$	253,796,224

Harris County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended February 28, 2011 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation
2/28/2009	$ 96,615,958	$ 26,823,612	28%	$ 140,001,754
2/28/2010	89,338,513	30,407,276	34%	198,932,991
2/28/2011	88,451,513	33,588,280	38%	253,796,224

The above tables include information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that Harris County administers. Two of the employers, GHC 9-1-1 and Community Supervision, are not considered departments or component units of Harris County. The annual net OPEB obligation for GHC 9-1-1 is $468,194, at February 28, 2011.

(D) Funded Status and Funding Progress

As of March 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The unfunded actuarial accrued liability (UAAL) was $859.7 million and covered payroll (annual payroll of active employees covered by the plan) was $722.5 million, resulting in a ratio of the UAAL to covered payroll of 119%. The UAAL of $859.7 million includes $915,483 for GHC 9-1-1.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(E) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2009, actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 5% discount rate and medical trend rates of 8% for 2009 and 7% for 2010 reduced by decrements to an ultimate rate of 5% by 2012. The UAAL amortization period and method utilized was 30 year level dollar open period.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance at 1/1/11	Additions	Retirements	Balance at 12/31/11
Equipment	$25,813,618	$3,642,362	($595,859)	$28,860,120
Furniture & Fixtures	1,979,667	-	-	1,979,667
Land (Non-depreciable)	2,708,879	-	-	2,708,879
Building	17,810,410	-	-	17,810,410
Building/Property Improvements	-	142,602	-	142,602
Leasehold Improvements	398,768	-	-	398,768
Total Fixed Assets	48,711,342	3,784,964	(595,859)	51,900,447
Less: Equipment Accumulated Depreciation	(18,601,931)	(3,629,586)	595,859	(21,635,657)
Less: Furniture & Fixture Accumulated Depreciation	(1,211,951)	(230,821)	-	(1,442,772)
Less: Building Accumulated Depreciation	(1,012,632)	(714,799)	-	(1,727,431)
Less: Leasehold Improvement Accumulated Amortization	(390,094)	(8,704)	-	(398,798)
Total Accumulated Depreciation/Amortization	(21,216,607)	(4,583,910)	595,859	(25,204,658)
Net Capital Assets	$ 27,494,735	($798,946)	$ -	$ 26,695,789

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance at 1/1/10	Additions	Retirements	Balance at 12/31/10
Equipment	$28,530,072	$2,186,732	($4,903,186)	$25,813,618
Furniture & Fixtures	1,999,405	6,126	(25,864)	1,979,667
Land (Non-depreciable)	2,708,879	-	-	2,708,879
Building	17,766,466	43,944	-	17,810,410
Leasehold Improvements	398,768	-	-	398,768
Total Fixed Assets	51,403,590	2,236,802	(4,929,050)	48,711,342
Less: Equipment Accumulated Depreciation	(19,714,253)	(3,790,864)	4,903,186	(18,601,931)
Less: Furniture & Fixture Accumulated Depreciation	(1,005,084)	(232,731)	25,864	(1,211,951)
Less: Building Accumulated Depreciation	(297,098)	(715,534)	-	(1,012,632)
Less: Leasehold Improvement Accumulated Amortization	(376,725)	(13,369)	-	(390,094)
Total Accumulated Depreciation/Amortization	(21,393,160)	(4,752,497)	4,929,050	(21,216,607)
Net Capital Assets	$30,010,430	($2,515,695)	$ -	$ 27,494,735

NOTE 7 - LONG-TERM DEBT

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance
Other post-employment benefits (OPEB)	$	$ 468,194	$	$ 468,194

NOTE 8 - OPERATING LEASES

GHC 9-1-1 has an existing lease agreement through January 2013 for building space where GHC 9-1-1's administrative staff vacated when the construction of the new headquarters was complete, a separate lease for an offsite collocation site to house critical redundant systems, and a service agreement for an MPLS (Multiprotocol Label Switching) Network for voice and data traffic. A schedule of future operating lease payments as of December 31, 2011, is as follows and includes the sublease revenue anticipated through January 2013. The sublease revenue will be used to offset future lease commitments.

Rental expenses for operating leases for 2011 and 2010 were $512,535 and $675,392, respectively. Sublease rental income for a portion of the operating leases for 2011 totaled $219,777 and $141,532 for 2010.

Year	Lease Amounts	Sublease Revenue	Net Leases
2012	$1,816,336	($ 224,892)	$1,591,444
2013	1,444,499	(18,771)	1,425,728
2014	1,415,660	-	1,415,660
Total future lease payments and offsetting revenue	$4,676,495	($243,663)	$4,432,832

NOTE 9 - COMMITMENTS

GHC 9-1-1 has contracts for installation, maintenance and support services with Data Foundry, Dell Marketing, Daymark Realty Advisors, Inc., AT&T reflected as "Deferred Charges" in the accompanying financial statements for the years ending December 31, 2011 and 2010. A large portion of the unamortized deferred charge balance for 2010 was for second-tier maintenance support services, provided by Cassidian, Inc., which expired July 31, 2011.

Vendor	2011	2010
Various Miscellaneous	$141,613	$108,130
Daymark Realty Advisors, Inc.	735	735
Cassidian, Inc.	-	454,689
Total	$142,348	$563,554
Current Portion	$57,530	$281,672

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 2011 or 2010.

NOTE 10 – Salaries and Benefits

Salary and benefit costs totaling $4,707,953 and $3,950,422, for the years 2011 and 2010, respectively, consist mainly of operational staff costs—in general, other 9-1-1 entities contract for 1st tier 9-1-1 call-taker support and database management services, so most 9-1-1 entities don't reflect those costs in their salary expenses. During the year 2001, GHC 9-1-1 terminated the maintenance contract for turn-key services to install/maintain the 9-1-1 systems and hired technical staff to perform those task in-house (technicians install GHC 9-1-1's call taker workstations/backup power systems, GHC 9-1-1 technicians also maintain an in-house 24x7x365 helpdesk service and are dispatched onsite for repairs when necessary). Again, during the year 2008, GHC 9-1-1 terminated another contract for database management service and hired database analyst staff to perform the same task in-house.

Bringing the operational task (ie. equipment installation/support, helpdesk, and database management) in-house, GHC 9-1-1 has improved service levels for its critical core systems while leveraging staff resources to perform other numerous functions that would otherwise require external expertise.

NOTE 11 – SERVICE FEES

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, 2011 and 2010. This note is provided as supplemental information to outline those general components included in the amounts reported as Fees and Services.

Expense	2011	2010
Network/Connectivity Services	$ 2,960,416	$ 6,529,403
PSAP Operations	13,670,685	13,446,928
IT Operations and repairs	281,243	261,375
Maintenance, Legal, and Other Services	3,172,353	3,198,362
Insurance and Vehicle	501,229	492,154
Miscellaneous Other	118,010	178,796
Total	$ 20,703,936	$ 24,107,018

NOTE 12 – RISK MANAGEMENT

GHC 9-1-1 is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disaster for which commercial insurance is purchased; and minimally torts since GHC 9-1-1 is covered by Texas Tort Claims Act.

During the year ended December 31, 2011, insurance coverage levels were not reduced from coverage levels in place as of December 31, 2010. No claims were made during 2011 and 2010.

NOTE 13 - ECONOMIC DEPENDENCE

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

Required Supplemental Information

(Unaudited)

Greater Harris County 9-1-1 Emergency Network
Required Supplementary Information
Other Post-Employment Benefits
Schedule of Funding Progress for Harris County, Texas

Fiscal Year	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)
2009	3/1/2007	$	$852,350,950	$852,350,950	0%	$760,995,816	112.0%
2010	3/1/2009		859,681,747	859,681,747	0%	766,400,980	112.2%
2011	3/1/2009		859,681,747	859,681,747	0%	722,468,180	119.0%

* The above table includes information for the 5 participating employers to the agent multiple employer defined benefit post employment healthcare plan that Harris County administers. Two of the employers, GHC 9-1-1 and Community Supervision are not considered departments or component units of the County; the UAAL for these entities are $915,483 and $16,210,643, respectively.

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)
12/31/04	$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%
12/31/07	3,346,572	3,786,512	439,941	88.38%	2,306,024	19.08%
12/31/08	3,748,490	4,556,210	807,720	82.27%	2,462,100	32.81%
12/31/09	4,541,900	5,438,189	896,289	83.52%	2,799,730	32.00%
12/31/10	5,380,348	6,376,132	995,784	84.38%	2,988,263	33.32%

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