

Greater Harris County 9-1-1 Emergency Network

Financial Statements and Auditor's Report
December 31, 2009 and 2008

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the business type activities of Greater Harris County 9-1-1 Emergency Network (the "Network"), as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Network, as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Null-Lairson, PC

Houston, Texas
April 28, 2010

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, 2009. The discussion and analysis should be read along with GHC 9-1-1's financial statements and accompanying footnotes.

Highlights

Financial Highlights

- GHC 9-1-1's cash and investment balance decreased by \$13.5 million to \$13.0 million, as funds were expended for the construction of GHC 9-1-1's headquarters. The remaining funds will be used to pay for on going capital replacement, operations staff, and upgrades to the 9-1-1 infrastructure over the next five years.
- The increase of \$26.8 million in inventoried assets is due to the construction of GHC 9-1-1's headquarters, 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 in-house database system.
- During December 2009, GHC 9-1-1 moved into its headquarters which houses the administrative/operations staff and the training center. The facility also serves as a backup call center and will allow GHC 9-1-1 to meet its future facility needs, providing flexibility for growth.
- Revenue Refunding Bonds were issued during 2004 and 2005, to finance a portion of the wireless cost recovery funding for 9-1-1 wireless location services. The bonds matured during the year 2009.
- The 9-1-1 service fee revenue increased by \$0.4 million or 1.2% due to an increase in wireless service fee revenue resulting from an increase in wireless subscribers.
- Salaries and benefits increased due to an increase in staffing 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 totaling \$1.3 million. The increase was mainly due to cost of living adjustments for the Public Safety Answering Point ("PSAP") staffing expenses, which are a major component of the "Fees and Services" total. PSAP expenses include funding for 9-1-1 call takers managed by the Houston Emergency Center ("HEC") and Harris County. Other costs for PSAPs, as with the remaining jurisdictions, are included in other expense accounts.

Using This Annual Report

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

GHC 9-1-1

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

The effort to establish 9-1-1 service in the Harris County area began in the late 1970's. At that time, over 150 emergency 7-digit telephone numbers existed—citizens had to figure out which agency served their area, and locate the proper emergency number. Harris County, the City of Houston, the Harris County Firefighters Association, other area cities and private citizens came together to work towards establishing 9-1-1 as the one emergency number for all citizens. These groups working together sought to establish a regional approach to providing 9-1-1 service to all citizens throughout the area. This effort resulted in the 1983 legislation cited above.

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

GHC 9-1-1 provides 9-1-1 communication services including: 9-1-1 equipment (hardware and software), a 24-hour, 365 days/year Command Center (in-house maintenance and support of all 9-1-1 systems), in-house database management for approximately three million telephone records, and other GHC 9-1-1 equipment used by the forty-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 8.1% (\$48.2 million compared to \$44.6 million). The \$3.6 million increase in Net Assets is a result of GHC 9-1-1's efforts to minimize increases in expenses while investing in the headquarters office building, which will benefit GHC 9-1-1 in the future.

Table 1
Net Assets
(in Millions)

	2009	2008
Current Assets	\$ 19.4	\$ 33.9
Capital and Other Assets	30.5	13.2
Total Assets	<u>\$ 49.9</u>	<u>\$ 47.1</u>
Current Liabilities	\$ 1.6	\$ 2.5
Noncurrent Liabilities	-	-
Total Liabilities	<u>\$ 1.6</u>	<u>\$ 2.5</u>
Net Assets:		
Invested in Capital, Net of Debt	\$ 30.0	\$ 12.1
Unrestricted	18.2	27.7
Restricted	-	4.8
Total Net Assets	<u>\$ 48.2</u>	<u>\$ 44.6</u>

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)

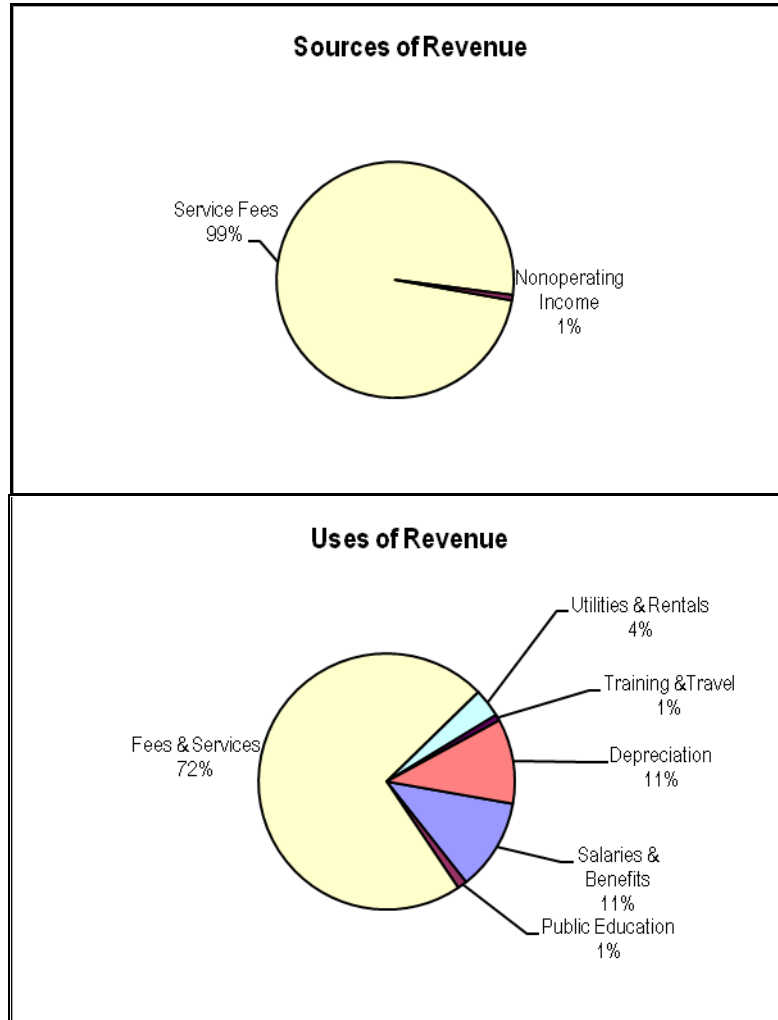
	2009	2008
Revenues:		
Net Operating Revenues	\$ 35.2	\$ 34.8
Interest and Nonoperating Income	0.3	1.1
Total Revenues	35.5	35.8
Expenses:		
Operating Expense	31.8	28.9
Interest Expense	0.0	0.1
Total Expenses	31.8	28.9
Change in Net Assets—Excess of Revenues Over Expenses	3.6	6.9
Net Assets - Beginning Of Year	44.6	37.7
Net Assets - End Of Year	\$ 48.2	\$ 44.6

In Table 2, above, net operating revenues slightly increased by 1.2% (\$0.4 million) due to an increase in wireless service fees. The growth in service fee revenue from wireless subscribers has slowed down as anticipated due to market saturation, but does continue to grow while the wireline revenue portion continues to slowly decrease.

Net operating expenses increased by 10.3% (\$2.9 million) primarily due to the increase in PSAP expenses for both the City and County and the depreciation of the new headquarters facility.

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

Table 3
Sources and Uses of Revenue Charts



The "Service Fees" (99%) category is the main source of funding, while 72% of the uses of funds are for "Fees & Services" which include networking and telephone charges for connectivity from the telephone companies' central offices to the telephone company's selective router to GHC 9-1-1's 31 PSAPs, 10 secondary safety answering points (SSAPs), 9-1-1 database services, PSAP expenses for the City of Houston and Harris County, operation & maintenance expenses, and contract services. The "Salaries & Benefits" category is 11% of the uses of revenue (see chart above)—this category includes administrative staff and operational staff technicians, which provide technical support and maintenance for all 9-1-1 systems on a 24-hour, 365 days/year basis.

Demands and Challenges

Technology

The rapid changes occurring with and around the 9-1-1 industry are more complex than in previous years. New Internet Protocol ("IP") or digital-based services, present various technical, operational and financial challenges for the 9-1-1 emergency communications industry. The technical and operational solutions will need to address the manner in which new IP-based devices can access the 9-1-1 system and have callers routed to the appropriate PSAP with the necessary information to allow the call takers to efficiently process the 9-1-1 emergency calls. GHC 9-1-1 has been involved with 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.

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 24+ years; however, integrating new communication services, available to citizens, 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 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 4.7 million citizens, during 2009, GHC 9-1-1 moved into the newly constructed headquarters. 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 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—in excess of 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 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, 2009 And 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets-Unrestricted:		
Cash & Cash Equivalents (Note 3)	\$ 1,522,934	\$ 7,517,020
Investments (Note 3)	11,501,768	19,061,354
Accounts Receivable (Note 2)	4,997,580	4,922,159
Accrued Interest Receivable	106,308	83,200
Deferred Charges-Current Portion (Note 8)	809,186	2,244,528
Prepaid Expenses	430,555	64,540
Total Current Assets	<u>19,368,331</u>	<u>33,892,801</u>
Capital Assets		
Inventoried Assets (Note 5)	48,694,711	21,928,329
Land	2,708,879	2,708,879
Construction Work in Progress-Building	-	5,478,326
Less: Accumulated Depreciation And Amortization	<u>(21,393,160)</u>	<u>(17,984,180)</u>
Total Capital Assets, Net	<u>30,010,430</u>	<u>12,131,354</u>
Deferred Charges, Net Of Current Portion (Note 8)	<u>494,812</u>	<u>1,103,636</u>
TOTAL ASSETS	<u><u>49,873,573</u></u>	<u><u>47,127,791</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,269,589	1,628,878
Salary And Accrued Benefits Payable	360,280	346,098
Bonds Payable-Current Portion (Note 6)	-	532,937
Total Current Liabilities	<u>1,629,869</u>	<u>2,507,913</u>
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	30,010,430	12,131,354
Unrestricted	18,233,274	27,709,044
Restricted	-	4,779,480
TOTAL NET ASSETS	<u><u>\$ 48,243,704</u></u>	<u><u>\$ 44,619,878</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

Greater Harris County 9-1-1 Emergency Network

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For The Years Ending December 31, 2009 And 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
9-1-1 Network Service Fees	\$ 35,556,545	\$ 35,119,517
Less: Administrative Fees	(349,610)	(339,044)
Net Operating Revenues	<u>35,206,935</u>	<u>34,780,473</u>
 Operating Expenses:		
Salaries and Benefits	3,690,749	3,303,337
Office Supplies	59,774	60,390
Public Education Materials	101,747	112,674
Fees and Services (Note 9)	22,959,746	21,707,168
Advertising (Note 2)	219,654	239,230
Rentals	744,416	823,538
Utilities	405,084	272,777
Training and Travel	248,735	294,330
Subtotal	<u>28,429,905</u>	<u>26,813,444</u>
 Depreciation	3,395,610	2,028,337
Amortization	13,370	13,612
Total Operating Expenses	<u>31,838,885</u>	<u>28,855,393</u>
 Operating Income	<u>3,368,050</u>	<u>5,925,080</u>
 Nonoperating Revenues (Expenses):		
Interest Earnings	213,720	1,025,560
Interest Expense	(5,349)	(79,234)
Miscellaneous Income	47,405	39,967
Total Nonoperating Revenues	<u>255,776</u>	<u>986,293</u>
 Change in Net Assets	3,623,826	6,911,373
Net Assets - Beginning Of Year	<u>44,619,878</u>	<u>37,708,505</u>
Net Assets - End Of Year	<u><u>\$ 48,243,704</u></u>	<u><u>\$ 44,619,878</u></u>

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, 2009 And 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Cash Received From Fees	\$ 35,224,655	\$ 34,322,258
Cash Payments For Goods And Services	(24,122,259)	(24,710,401)
Cash Payments To Employees For Services	(3,676,567)	(3,185,909)
Net Cash Provided (Used) By Operating Activities	<u>7,425,829</u>	<u>6,425,948</u>
Cash Flows From Noncapital Financing Activities:		
Other Revenue	47,405	39,967
Payment of Bond Debt Service	(532,937)	(3,003,927)
Payment of Bond Debt Interest	(5,349)	(79,234)
Net Cash From Noncapital Financing Activities	<u>(490,881)</u>	<u>(3,043,194)</u>
Cash Flows From Capital And Related Financing Activities:		
Acquisition Of Capital Assets	(21,288,056)	(7,174,760)
Use of Deferred Charges	608,824	1,924,362
Net Cash Used For Capital And Related Financing Activities	<u>(20,679,232)</u>	<u>(5,250,398)</u>
Cash Flows From Investing Activities:		
Investment Purchase	(18,769,459)	(33,211,397)
Investment Maturity	26,329,045	32,089,309
Interest Received	190,612	994,245
Net Cash Flows Used From Investing Activities	<u>7,750,198</u>	<u>(127,843)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(5,994,086)	(1,995,487)
Cash And Cash Equivalents - Beginning of Year	<u>7,517,020</u>	<u>9,512,507</u>
Cash And Cash Equivalents - End of Year	<u>\$ 1,522,934</u>	<u>\$ 7,517,020</u>

Reconciliation of Operating Income to Net Cash Provided By Operating Activity

Operating Income	<u>\$ 3,368,050</u>	<u>\$ 5,925,080</u>
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	3,395,610	2,028,337
Amortization	13,370	13,612
Change In Assets And Liabilities:		
Decrease (Increase) In Accounts Receivables	(75,421)	(416,187)
Decrease (Increase) In Prepaids	(366,015)	(38,114)
Decrease (Increase) In Deferred Charges	1,435,342	1,805,086
Increase (Decrease) In Accounts Payable	(359,289)	(3,009,294)
Increase (Decrease) In Salaries and Accrued Benefits Payable	14,182	117,428
Total Adjustments	<u>4,057,779</u>	<u>500,868</u>
Net Cash Provided By Operating Activities	<u>\$ 7,425,829</u>	<u>\$ 6,425,948</u>

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 2009 and 2008:

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 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 in any one calendar quarter by the telephone companies are due thirty (30) days after the last day of the calendar month. AT&T and Sprint telephone companies adjust their estimated uncollectible rate on a quarterly basis for 9-1-1 fees not collected; other telephone companies adjust on an annual basis.

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

NOTES TO THE FINANCIAL STATEMENTS

For The Years Ending December 31, 2009 and 2008

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.

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

(B) Basis of Presentation and Accounting

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

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

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

Greater Harris County 9-1-1 Emergency Network
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ending December 31, 2009 and 2008

(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 \$229,000 and \$224,323 as of December 31, 2009 and 2008, 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, 2009 and 2008.

(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."

(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
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(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 \$1,522,934 and \$7,517,020 as of December 31, 2009 and 2008, 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, 2009, GHC 9-1-1 had a bank balance of \$6,003,324 in the checking and money market sweep accounts. The entire cash equivalent portion of the bank balance was held in the money market sweep account. The money market sweep account is made up of investments of US treasury securities.

(B) Investments

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 district's Board of Managers and the Harris County Commissioners Court. 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.

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(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. Cost approximates fair value on the investments with maturity dates of one month for commercial paper and two years for notes. The information below indicates the fair value, percentage of portfolio, maturity value, and credit rating of GHC 9-1-1's investments as of December 31, 2009, summarized by security type.

	Security	Credit Rating (S&P/Moody's)	Fair Value	% of Portfolio	Maturity Amount
Commercial Paper	FCAR	A-1/P-1	\$ 5,999,533	52.15%	\$ 5,996,375
US Agency Notes	FNMA	AAA/Aaa	5,505,156	47.85%	5,505,457
Money Market Sweep Accounts	US Treasury Securities	AAAm/Aaa	6,003,324	N/A	N/A
			<u>\$ 17,508,013</u>	<u>100%</u>	<u>\$ 11,501,832</u>

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, 2009, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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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 11.61% for calendar year 2009. 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, 2009 and 2008, were \$4,597 and \$3,852, respectively, which equaled the contractually required contributions each year.

(C) Annual Pension Cost

For the employer's accounting years ending December 31, 2009 and 2008, the annual pension cost for the TCDRS plan for its employees and the actual contributions totaled \$323,235 and \$282,532, 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, 2008, the basis for determining the contribution rate for calendar year 2009. The December 31, 2008, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/06	12/31/07	12/31/08
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	15	15	15
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%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	3.5%	-	-
	-	-	-

¹Includes inflation at the stated rate

Trend Information

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

Accounting Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Ending</u> 12/31/07	\$269,711	100%	\$ -
12/31/08	\$282,532	100%	\$ -
12/31/09	\$323,235	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)
12/31/06	\$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%

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

Greater Harris County 9-1-1 Emergency Network
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NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance at 1/1/09	Additions	Retirements	Balance at 12/31/09
Equipment	\$20,656,723	\$ 8,999,916	\$ -	\$29,656,639
Furniture & Fixtures	872,838	-	-	872,838
Land	2,708,879	-	-	2,708,879
Construction Work In Progress-Bldg	5,478,326	12,288,140	(17,766,466)	-
Building	-	17,766,466	-	17,766,466
Leasehold Improvements	398,768	-	-	398,768
Total Fixed Assets	30,115,534	39,054,522	(17,766,466)	51,403,590
Less: Equipment Accumulated Depreciation	(16,747,987)	(3,097,840)	-	(19,845,827)
Less: Furniture & Fixture Accumulated Depreciation	(872,838)	(672)	-	(873,510)
Less: Building Accumulated Depreciation	-	(297,098)	-	(297,098)
Less: Leasehold Improvement Accumulated Amortization	(363,355)	(13,370)	-	(376,725)
Total Accumulated Depreciation/Amortization	(17,984,180)	(3,408,980)	-	(21,393,160)
Net Capital Assets	\$12,131,354	\$35,645,542	(\$17,766,466)	\$ 30,010,430

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

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

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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 was pledged for the payment of the Bonds Series 2004-A, which matured and were retired March 1, 2008 and Series 2004-B, and Series 2004-C, matured and were retired January 1, 2009, and June 1, 2009, respectively, with interest on the bonds at rates of 2.7085%, 3.5730%, and 4.0150%, respectively. As of December 31, 2009, GHC 9-1-1 does not have any outstanding bond debt, as there were no interest or principle payments remaining.

NOTE 7- OPERATING LEASES

GHC 9-1-1 has a lease agreement for building space where GHC 9-1-1's administrative staff used to reside prior to the construction of the new headquarters, 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, 2009, is as follows and includes the sublease revenue (see Note 11), which will be used to offset future lease commitments.

<u>Year</u>	<u>Lease Amounts</u>	<u>Sublease Revenue</u>	<u>Net Leases</u>
2010	\$1,925,552	(\$ 88,890)	\$1,836,662
2011	1,925,552	(109,728)	1,815,824
2012	1,816,336	(109,728)	1,706,608
2013	1,444,499	(9,144)	1,435,355
2014	<u>1,415,660</u>	<u>-</u>	<u>1,415,660</u>
Total future lease payments and offsetting revenue	<u>\$8,527,599</u>	<u>(\$317,490)</u>	<u>\$8,210,109</u>

NOTE 8 - COMMITMENTS

GHC 9-1-1 has contracts for installation, maintenance and support services with Data Foundry, Dell Marketing, Grubb and Ellis Management Inc., AT&T, and Plant Equipment, Inc. reflected as "Deferred Charges" in the accompanying financial statements for the years ending December 31, 2009 and 2008. A large portion of the unamortized deferred charge balance is for second-tier maintenance support services, provided by Plant Equipment, Inc. (PEI/CML), which expires July 31, 2011.

<u>Vendor</u>	<u>2009</u>	<u>2008</u>
Data Foundry	\$ 12,267	\$ 12,267
Dell Marketing	72,097	-
Grubb and Ellis	735	735
AT&T	-	134,592
PEI/CML	1,218,898	1,783,665
Wireless Carriers	<u>1,416,905</u>	<u>1,416,905</u>
Total	<u>\$ 1,303,997</u>	<u>\$ 3,348,164</u>
Current Portion	<u>\$ 809,186</u>	<u>\$ 2,244,528</u>

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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 2009 or 2008.

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, 2009 and 2008. This note is provided as supplemental information to outline those general components included in the amounts reported as Fees and Services.

Expense	2009	2008
Network/Connectivity Services	\$ 6,072,349	\$ 6,662,717
PSAP Operations	13,415,804	12,382,913
IT Operations and repairs	638,815	467,008
Maintenance, Legal, and Other Services	2,259,879	1,664,030
Insurance and Vehicle	374,882	403,352
Miscellaneous Other	198,017	127,148
Total	<u>\$ 22,959,746</u>	<u>\$ 21,707,168</u>

NOTE 10 - ECONOMIC DEPENDENCE

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

NOTE 11 - SUBSEQUENT EVENT

During December 2009, GHC 9-1-1 moved out of the leased facility and into the new headquarters. The lease will expire during January 2013. Efforts to sublease the space have been successful and during December 2009 and March 2010, GHC 9-1-1 entered into two separate sublease arrangements through the end of GHC 9-1-1's lease term. The sublease revenue will be used to offset the expense of the future lease commitments as presented in Note 7.