

OFFICE OF THE CITY CONTROLLER 103 YEARS OF HOUSTON HISTORY



CITY OF HOUSTON, TEXAS

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006

Prepared by:
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Rudy Garcia, Deputy City Controller, Financial Reporting

CITY OF HOUSTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2006

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CITY OF HOUSTON, TEXAS





Office of the City Controller

Houston's City Controller, Annise D. Parker, is the second highest elected official in Houston City Government and its Chief Financial Officer, as dictated by the City Charter. The Office of the Houston City Controller superintends the fiscal affairs of the City, which includes conducting audits, managing investments and debt, preparing financial statements and providing leadership on policy issues pertaining to the City's financial health. The Controller is asked to balance the fiscal needs of Houston with the politics of popular elections and acts as a check-and-balance to the Mayor and City Council, the executive and legislative branches of City government. She serves as an independently elected "financial watchdog" over City government's fiscal affairs.

In Fiscal Year 2006, the Controller's Office played a major role in the City's hurricane Katrina relief program, working almost round the clock to process housing contracts and rental payments for 35,000 hurricane evacuee households. Houston's relief effort cost approximately \$300 million, most of which has been reimbursed by the Federal Emergency Management Association.

The Controller's Office was also central to the implementation of the City's new Enterprise Resource Planning Project (ERP), a multi-million dollar integrated materials management and financial accounting system that replaced an aging system which could no longer keep up with the City's growing financial management needs. Numerous Controller's Office employees were temporarily reassigned to the project and others fulfilled dual roles, covering their usual responsibilities as well as additional demands associated with ERP. The new system went live on July 1, 2006 and as of October 31st, more than 30,000 vendor checks had been processed successfully. Phase two of implementation will involve improvements to the City's human resources and payroll process.

The Controller's Office Audit Division completed 20 audits in Fiscal Year 2006 including a comprehensive study of Republic Waste's billing practices and City garbage and collection services. The audit confirmed Republic billed the City of Houston for the collection and disposal of tons of garbage collected in other cities. Republic agreed to a \$2 million settlement with the City. The Audit Division provided extensive assistance to the Harris County District Attorney's Office as it conducted a criminal probe into \$143,000 of unauthorized employee bonuses within the Office of the Mayor Pro Tem. Four former City employees are facing criminal charges in connection with the probe.

The Controller's Office continues its tradition of prudent and responsible management of the City's \$2 billion investment portfolio, retaining a 'AAAF' credit quality rating from Standard and Poor's Investment Services for four years running. The rating reflects the extremely strong protection that the pool's portfolio provides against losses from credit defaults or credit deterioration.

Although the Financial Reporting Division is ultimately responsible for the final product, the preparation of the CAFR requires a concentrated effort by every division of the City Controller's Office. The CAFR is available on the City Controller's website: www.houstoncontroller.org.



Annise D. Parker

Houston City Controller



Houston City Controller Annise D. Parker is a second generation native Houstonian. She attended Rice University, graduating in 1978 with a Bachelor of Arts Degree. In the private sector, Ms. Parker spent 20 years working in the oil and gas industry, including 18 years with Mosbacher Energy Company. She co-owned a retail bookstore for 10 years and still co-owns a bookkeeping and income tax company.

Controller Parker was sworn in for a second term on January 2, 2006. She is Houston's 14th City Controller, the second-highest elected city official, and serves as the City's Chief Financial Officer.

During her first term as Controller, Ms. Parker helped win overwhelming voter approval (85%) of Proposition 3, which gives the Controller's Office the independent authority to conduct performance reviews of all City departments, agencies and programs. She was also successful in securing a seat for a controller's appointee on the Houston Municipal Pension System Board of Trustees, marking the first time the City's chief financial officer has had any involvement in the pension system. In addition, Ms. Parker was tapped by Mayor Bill White to serve as a member of the stakeholders committee overseeing an independent investigation of the City's troubled crime lab.

Prior to her election as City Controller, Ms. Parker served for six years as an at-large member of Houston City Council. She chaired city council's Fiscal Affairs and Neighborhood Protection Committees and served on eight other committees, playing leadership roles in the creation of the City's \$20 million Rainy Day Fund, a civic art program, a pooper-scooper law, tighter regulations for inner city development and the City's non-discrimination policy. She also represented Houston on the Alliance for Interstate 69 Texas Board, the Municipal Solid Waste Management and Resource Recovery Advisory Council of Texas Commission on Environmental Quality and the World Energy Cities Partnership.

Despite her duties as City Controller, Ms. Parker remains active in the Houston community, currently serving on the board of the Holocaust Museum and as an advisory board member of the Houston Zoo, the Montrose Counseling Center and Trees for Houston. Her past activities include service as President of the Houston Gay and Lesbian Political Caucus, the Neartown Civic Association and the Neartown Community Development Corporation.

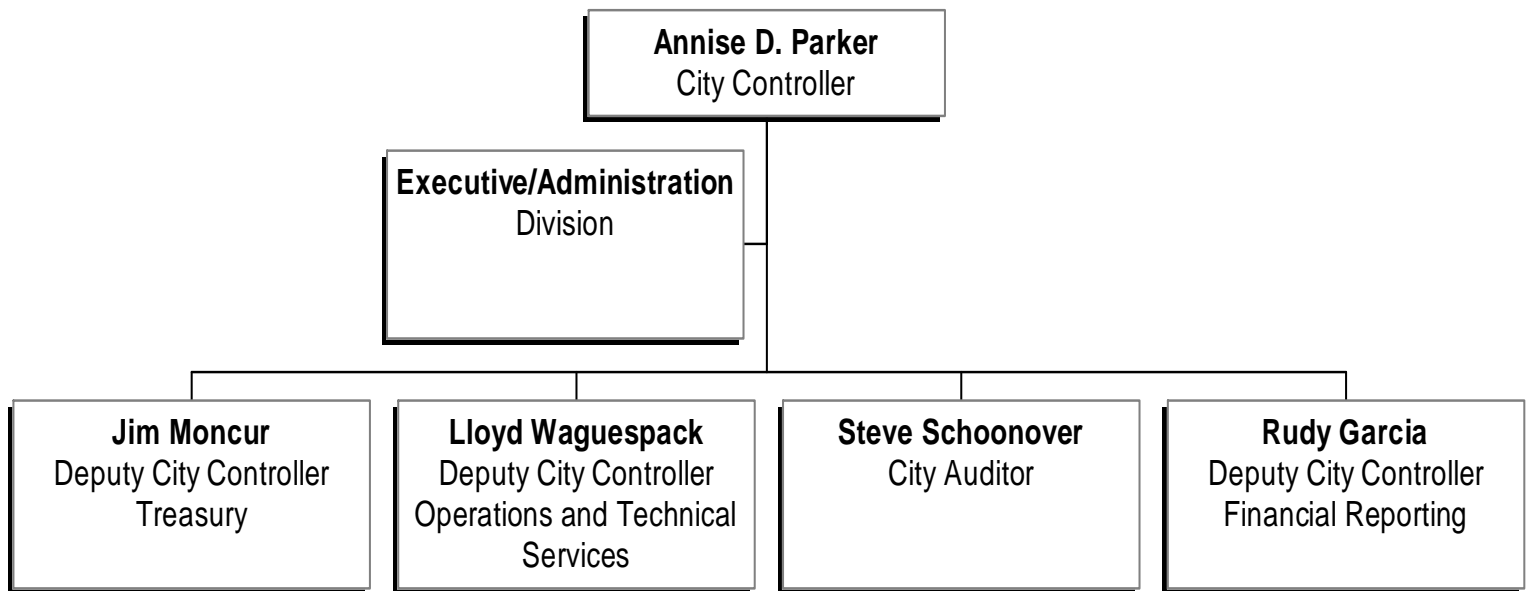
In 2001, Ms. Parker was selected as "Council Member of the Year" by the Houston Police Officers Union. In 2002, she received the "Distinguished Local Elected Official Award" from the Texas Recreation and Park Society. She previously received the "Good Brick Award" from the Greater Houston Preservation Alliance for her restoration of historic properties in the Old Sixth Ward.

Ms. Parker and her life partner, Kathy Hubbard, have been together since 1990. They have two children.



City of Houston

The Office of the City Controller





Elected Officials City of Houston, Texas



Mayor
Bill White

City Controller
Annise D. Parker

Council Members

Carol Alvarado, **Mayor Pro Tem, District I**

Michael Berry, **Vice Mayor Pro Tem, At Large Position 5**

Peter Brown, **At-Large Position 1** Sue Lovell, **At-Large Position 2**

Shelley Sekula-Gibbs, M.D., **At Large Position 3** Ronald Green, **At-Large Position 4**

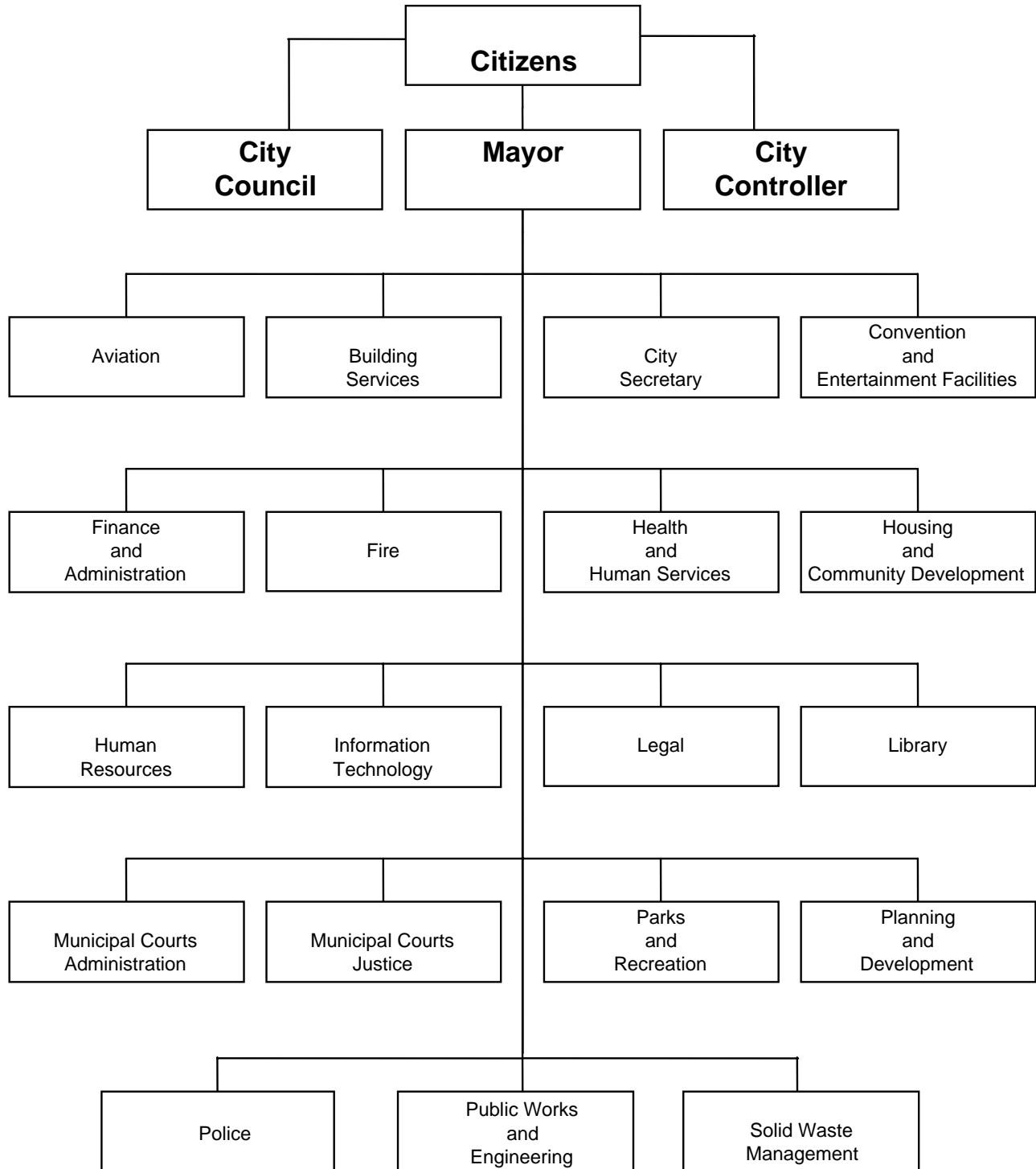
Toni Lawrence, **District A** Jarvis Johnson, **District B** Anne Clutterbuck, **District C**

Ada Edwards, **District D** Addie Wiseman, **District E** M. J. Khan, **District F**

Pam Holm, **District G** Adrian Garcia, **District H**



Organization Chart City Government



CITY OF HOUSTON, TEXAS





OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

June 6, 2007

Citizens of Houston, Honorable Mayor and City Council Members
Houston, Texas:

I am pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Houston, Texas (City) for the year ended June 30, 2006, including the independent auditors' report prepared by Deloitte & Touche LLP. The CAFR was prepared by the City Controller's Office and satisfies my responsibilities under the City Charter and State law. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects and is organized in a manner which fairly sets forth the financial position and results of operations of the City as measured by the financial activity of its various funds.

The City's management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable, but not absolute, assurance that the assets of the City are protected from loss, theft, or misuse, and for the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

The CAFR is presented in three sections. The Introductory Section includes this transmittal letter, a list of elected City officials, and organizational charts for the Office of the City Controller and for City government. The Financial Section includes Management's Discussion and Analysis (MD&A), basic financial statements, combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. The Statistical Section includes selected financial and demographic information generally presented on a multi-year basis.

The Basic Financial Statements of the City include all government activities, organizations and functions, including those legally separate organizations for which the City is financially accountable as defined by the Governmental Accounting Standards Board (GASB).

These financial statements have been prepared in accordance with generally accepted accounting principles for local governments as prescribed by the GASB.

The Reporting Entity and Its Services

The Mayor serves as the Chief Executive Officer of the City. The City Controller is the second-highest elected official within City government and serves as the City's Chief Financial Officer. The legislative body of the City is the City Council, which consists of the mayor, nine district members and five at-large members. The Mayor, City Controller, and Council Members are limited to three two-year elected terms.

The City provides a full range of municipal government services including police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection, sanitary code enforcement, wastewater treatment, health and human services, building and housing code enforcement, construction and maintenance of streets and bridges, traffic and signal installation and maintenance, parks and recreation, library, convention and cultural activities, and operation of three municipal airports: George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Field.

The City does not operate hospitals, schools, transportation systems, or higher education systems. Special districts and governmental entities with independent taxing authority are responsible for administering these services.

History and Population

In August of 1836, New York real estate brokers John Kirby Allen and Augustus Chapman Allen paid \$9,428 for 6,642 acres of land along the banks of Buffalo Bayou. They named their town Houston after General Sam Houston. By 1860, Houston had emerged as a commercial and railroad hub for the export of cotton. After the Civil War, an effort commenced to widen the City's extensive system of bayous so the City could accept more trade between its downtown and the nearby Port of Galveston. The discovery of oil at Spindletop in Beaumont, Texas in 1901 marked the beginning of the oil industry, which is still a dominant driver in Houston's diversified economy. By 1914, Houston's ship channel was dredged to create a deep-water port, outpacing Galveston's port, which had been ruined by the Great Storm of 1900.

Today, Houston is the largest city in the state of Texas and the fourth largest city in the United States. It covers 617 square miles and has 2.01 million residents. The greater Houston metropolitan area encompasses six counties and is home to 5.3 million residents. Houston is a diverse and international city where no single ethnic group comprises a majority.

Budgetary Information

Under state law and the City Charter, the City is required to adopt a balanced budget each year. Based upon recommendations by the Mayor, City Council adopts an annual budget for the General Fund, Debt Service Fund, Special Revenue Funds, Internal Service Funds, and Proprietary Funds. Exceptions are the Grant Revenue, Disaster Recovery, Health Special, and Housing Special Revenue Funds, for which City Council adopts separate operating or program budgets throughout the year. The City also does not budget capital projects and other capital expenditures related to the General Fund. Instead, City Council authorizes these expenditures through individual appropriation ordinances.

Proprietary Fund budgets, also called Enterprise Funds, exclude depreciation and amortization expenses. These Proprietary Fund budgets include debt service and capital equipment costs, but exclude buildings and improvements, with the exception of Aviation, which budgets its current year expenses for these projects. As with General Fund capital projects, approval of each Proprietary Fund capital project is accomplished through individual appropriation ordinances. No City expenditures may be made without an appropriation. City Council can legally appropriate only those amounts of money that the City Controller has previously certified are, or will be, in the City treasury.

Although the legal level of budgetary control is at the departmental level within a fund, the City maintains internal budgetary control at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay.) Budget control is primarily managed using an automated encumbrance and accounts payable system.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, the U. S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments and Non-profit Organizations," and the State of Texas Single Audit Circular.

These audits are conducted simultaneously with the City's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations is included in separate Single Audit Reports.

The Local Economy

Houston remains the base of operations for every aspect of the domestic and international energy industry, but biomedical research, aeronautics and the ship channel also contribute heavily to the area's economy. In 2005, the metropolitan area's Gross Area Product (GAP) was \$308.7 billion, up 5.4 percent from the year before. Only 28 nations other than the United States have a GAP exceeding Houston's GAP.

According to the November 2006 Houston Beige Book compiled by the Federal Reserve Bank of Dallas, the Houston economy continues to boom, with unemployment at 4.7 percent, the lowest rate in five years. Nearly 100,000 jobs were created in the last 12 months. This strong job growth is supporting increased home sales with September 2006 sales of existing homes and new-homes up 18 percent and six percent, respectively, from a year ago. In the third quarter of 2006, the median price for a single-family home jumped to \$147,000, compared to the median price nationwide of \$221,000.

The Port of Houston is ranked first in the United States in foreign waterborne tonnage, second in the U.S. in total tonnage, and tenth in the world in total tonnage. Economic studies reveal that ship channel businesses support more than 287,000 direct and indirect jobs throughout Texas while generating nearly \$11 billion in economic impact. Additionally, more than \$649 million in state and local tax revenues are generated by business activities related to the port. It is projected that the Port of Houston will continue to be an important factor as north-south trade expands.

The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport, Hobby Airport and Ellington Field, is the fourth largest airport system in the country and the sixth largest in the world. According to a 2003 economic impact study, HAS supports more than 151,000 regional jobs and contributes over \$24 billion to the local economy.

Another major economic driver is the Texas Medical Center, a hub of medical research consisting of 45 member institutions and nine university systems with combined operating budgets of more than \$5.4 billion. The medical center provides jobs for approximately 73,600 doctors, nurses and support personnel, and provides medical services for more than 5 million patients annually.

For 45 years, the Johnson Space Center (JSC) has been home to the U.S. space flight program, from the early Gemini and Apollo mission to today's Space Shuttle and International Space Station programs. JSC's workforce consists of 3,000 employees, approximately 110 of whom are astronauts. Another 12,000 employees work for private companies that contract with JSC. By popular vote, JSC landed a space on the board of Hasbro's 'Here and Now' edition of the popular game, Monopoly. NASA's Johnson Space Center received more votes than nine of the 21 other major cities including Dallas, Atlanta and Miami.

Downtown Houston, long the daytime hub of the City's economy, is now also a popular destination for nightlife, featuring bars, clubs, restaurants, hotels and a theater district that boasts nine performing arts organizations, six performance halls and the second largest number of theater seats in the nation. Houston is one of only five cities to have professional resident companies in all of the major performing arts disciplines: opera, ballet, music and theater.

Downtown Houston's already abundant entertainment offerings will soon be supplemented by a \$160 million, three-level entertainment, retail, office and condominium complex and new 12-acre downtown park to be called 'Discovery Green.' Just minutes from downtown by way of the Metropolitan Transit Authority's (METRO) 7.4-mile light rail system is the Museum District, home to the Museum of Fine Arts, Houston; the Contemporary Arts Museum; the Houston Museum of Natural Science; the Holocaust Museum; the Children's Museum; the Lawndale Art Center; the John P. McGovern Museum of Health and Medical Sciences; the Houston Center for Contemporary Craft, the Houston Museum of Printing History and the Houston Zoo.

Houston has left its mark on the sporting world, having hosted Super Bowl XXXVIII in 2004, the World Series and Big 12 Conference football championship game in 2005, the NBA All-Star Game in 2006, the U.S. Men's Clay Court Championships from 2001-2006, The Tennis Masters Cup in 2003 and 2004, as well as the annual Shell Houston Open. Houston has teams in nearly every major professional sport including: Houston Astros (MLB), Houston Texans (NFL), Houston Rockets (NBA), Houston Comets (WNBA), Houston Aeros (AHL) and Houston Dynamo (MLS). The Dynamo, Houston's newest professional team, won the 2006 MLS Cup.

METRO's Main Street light rail line is the first of other mass transit improvements to come. The METRO Solutions Plan, approved by voters in November 2003, is a comprehensive transit plan that provides a range of technologies and services to address the varying mobility needs of specific corridors and the community at large through 2025. The \$2 billion plan includes nine miles of light rail transit, 21 miles of fixed-guideway bus rapid transit, 28 miles of commuter rail and high occupancy vehicle lane (HOV) improvements. In addition to METRO's plans, the Houston-Galveston Area Council expects to spend more than \$65 million over the next 20 years on transit mobility projects.

Financial Policies and Planning

Maintaining fiscal stability and planning for the future are priorities of Houston City government. The City's Financial Policy Ordinance requires an Undesignated General Fund Balance of five percent of total expenses less debt service. Any funds in excess of 7.5 percent of total expenses less debt service are available for non-recurring expenses. The City's Undesignated Fund Balance has remained relatively stable but it consists mainly of non-cash items. In addition to the fund balance, the City has \$20 million in cash in its Rainy Day Fund, which can only be used for emergencies. An outside review of the City's cash management practices conducted in 2001 recommended cash reserves of at least \$30 million.

The Financial Policies Ordinance further requires that any capital projects financed through the issuance of bonds or other obligations shall be financed for a period not to exceed the expected life of the project. Annual contributions to the Debt Service Fund from the General Fund are limited to 20 percent of total General Fund revenues, excluding state and federal grants. In addition, Texas law mandates that the City's total tax supported indebtedness shall not exceed 10 percent of the total assessed valuation of property in the City. As of September 2006, the City's total outstanding debt payable from taxes and other revenue sources totaled \$11.2 billion. This is in compliance with all applicable financial policies and considered manageable, given current trends in revenue growth.

A 1983 resolution adopted by City Council requires the Mayor to develop and submit annually to the City Council for approval a continuous five-year Capital Improvement Plan (CIP). Each year, the Mayor must review the CIP, revise it as necessary, and obtain approval and adoption by City Council. The 2007-2011 CIP calls for the appropriation of \$4.51 billion over the five-year period. About half of the proposed projects will be paid for with tax supported public improvement bonds approved by Houston voters. The other half of the plan is to be financed with income generated by the enterprise funds.

The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investment. The success of this deliberate approach is evident in the 'AAAF' credit quality rating and "S1" volatility rating assigned to the City's General Investment Portfolio by Standard and Poor's Rating Services.

Long-term Financial Forecast and Major Initiatives

A five-year planning scenario prepared in the spring of 2006 indicates very modest growth in revenues will be more than offset by known cost increases. The main factors driving the increased expenditures are employee health benefits, pension responsibilities, operating costs for new facilities, contractual salary obligations for police officers and firefighters, as well as other contractual responsibilities. Various strategies are being employed to address the anticipated gaps between projected revenues and expenditures and ensure balanced budgets. City departments have been put on notice to find ways to cut costs while at the same time improving productivity. The CIP has been restructured to be more affordable.

Where possible, debt restructuring has been implemented. Ballot propositions approved by Houston voters in November 2006 (see Proposition G and H below) and a new 30-year electric franchise agreement with CenterPoint Energy are helping to offset increased costs for public safety. In addition, strong management is keeping increases in employee health insurance premiums and pension costs to a minimum.

Hurricanes Katrina and Rita

After the hurricanes in 2005, Houston launched the largest domestic disaster relief effort in the country's history. This involved a massive public housing program for thousands of hurricane evacuees. To date, rent and utility payments have cost approximately \$300 million, most of which has been reimbursed by the Federal Emergency Management Agency (FEMA).

Pensions

Through an aggressive restructuring of benefits combined with increases in employee contributions and the issuance of Pension Obligation Bonds (POBs), the City cut in half a \$2 billion unfunded liability in its municipal, police and fire pension systems. In addition, a package of governance changes agreed to by the City and the Houston Municipal Employees Pension System (HMEPS) is bringing increased accountability to HMEPS. It is likely the City will need to negotiate additional benefits reductions and increased employee contributions to reduce future financial burdens on the City's General Fund and Enterprise Funds. It is not expected that POBs will be relied upon in developing a long-term pension-financing plan.

Propositions G and H

In November 2006, Houston voters, by wide margins, approved two ballot propositions that free the City from some of the restrictions of a revenue cap passed two years earlier. Proposition G excludes the City's enterprise funds from a revenue cap known as Proposition 2 that voters approved in 2004, but leaves in place limits on growth of other City revenues. Proposition H allows the City to collect and spend \$90 million over the Proposition 2 revenue cap for police, fire and emergency medical services in fiscal year 07. Proposition 1, another revenue cap that applies only to property taxes and water and sewer rates, was unchanged by the November 2006 election and remains in effect as adopted in 2004, limiting annual growth in property taxes and water and sewer rates to the lesser of the actual revenues in the preceding fiscal year, plus 4.5 percent, or the revenues received in the previous fiscal year, plus the cumulative combined rates of inflation and the City's population growth.

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Houston for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the ninth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report on a timely basis could not have been accomplished without the dedicated services and hard work of a highly qualified staff. The City of Houston has such a staff in the City Controller's Office. Although much time and effort in preparation of this report lies in the Financial Reporting Division, there was support from the other divisions of the Office: Administration, Audit, Executive, Operations and Technical Services and Treasury.

I would like to express my appreciation to the entire staff of the City Controller's Office, and to the staffs of the Finance and Administration, Aviation, Convention and Entertainment Facilities, and Public Works and Engineering departments who assisted and contributed to the preparation of this report.

The City Controller's Office also received invaluable assistance and support from many others outside its immediate organization. Within the City of Houston, the accounting staffs of the operating departments and the technical staff of the Information Services Division all played key roles in producing this report. Deloitte & Touche LLP was not only our independent auditor, but also served as an invaluable source of information and ideas for improving the way City finances are reported. The design is the creative work of the Houston Independent School District Printing Services and its graphic designers. We also acknowledge the Mayor and City Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated, and I look forward to working with them to continue improving the City's financial condition.

Finally, I want to thank Kathleen Ownby, Executive Director of the School Park (SPARK) Program, the entire SPARK staff and photographer Tom Callins of Callins Photography for their assistance in gathering the photos that showcase the beautiful artwork displayed on school playgrounds all over Houston. Former Houston City Council Member Eleanor Tinsley created SPARK in 1983 to transform public school grounds into neighborhood parks. There are currently a total of 190 SPARK Parks.

Request for Information

This financial report is designed to provide a general overview of the City of Houston's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8th Floor, Houston, Texas 77002.



Annise D. Parker
City Controller

Sources:

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Greater Houston Convention and Visitors Bureau
Greater Houston Partnership
Metropolitan Transit Authority of Harris County
University of Houston Center for Economic Forecasting
Texas Medical Center
Harris County – Houston Sports Authority
Nasa.gov
Wikipedia.org

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF HOUSTON, TEXAS



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members
of City Council and City Controller
of the City of Houston, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houston, Texas (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Houston's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Firefighter's Relief and Retirement Pension Trust Fund, the Municipal Employees' Pension Trust Fund and the Police Officers' Pension Trust Fund, blended component units of the City, which, in aggregate, represent 100% of the assets of the pension trust funds, within the fiduciary funds. In addition we did not audit the financial statements of the nonmajor business-type enterprise fund, which represents 2% and 0% of the assets and revenues of business-type activities of the City. We also did not audit the financial statements of any governmental or business-type discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such business-type activities and governmental and business – type discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements noted above as being audited by other auditors were audited in accordance with generally accepted auditing standards. An audit includes consideration of internal control 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 City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and aggregate remaining fund information of the City of Houston, Texas, as of June

30, 2006, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Budgeted and Actual Revenues and Expenditures of the General Operating Fund and Pension System supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Houston's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's respective financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Individual Fund Statements and Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the City of Houston's management. The Individual Fund Statements and Schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

June 6, 2007

City of Houston, Texas

Management's Discussion and Analysis

(Unaudited)

June 30, 2006

As management of the City of Houston, we offer readers of the City of Houston's financial statements this narrative overview and analysis of the financial activities of the City of Houston for the fiscal year ended June 30, 2006. Please read this information in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2005. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

Some of the City's financial highlights for the fiscal year ending June 30, 2006 include:

- The assets of the City of Houston exceeded its liabilities at the close of the most recent fiscal year by \$4.4 billion.
- The City's total net assets decreased during the year by \$132 million.
- Unrestricted assets are a deficit of \$628 million.
- The City of Houston's total expenses were \$3.593 billion.
- Program revenues of \$1.933 billion reduced the net cost of the City's functions to be financed from the City's general revenues to \$1.66 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Houston's basic financial statements. The City of Houston's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Houston's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Houston's assets and liabilities, with the difference between the assets and liabilities reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City of Houston is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City of Houston that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Houston include general government, public safety, public works, health, housing and community development, parks and recreation, and library. The business-type activities of the City of Houston include the airport system, combined utility system (formerly called the water & sewer system) and convention & entertainment facilities.

The government-wide financial statements include not only the City of Houston itself (known as the primary government), but also legally separate component units for which the City of Houston is financially accountable. With the exception of the Houston Area Water Corporation and the three pension systems, financial information for the component units is reported separately from the financial information presented for the primary government itself. The Houston Area Water Corporation and the pension systems, although also legally separate, function for all practical purposes as departments of the City of Houston, and therefore have been included as an integral part of the primary government.

Fund financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Houston, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Houston can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet (see pgs. 18-19) displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures, and changes in fund balances and governmental activities is provided on a separate schedule (see page 22).

The City of Houston maintains nine individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet (see page 18) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (see page 20) for the general fund, the debt service fund, the capital projects fund and the grants fund, all of which are considered to be major funds. Data from the other funds is combined in the column labeled "Nonmajor Governmental Funds" on both of these statements (see also the separate tab labeled "Governmental Funds" for more information on these funds).

Proprietary funds. The City of Houston maintains two different types of proprietary funds (see statements beginning on page 24): Enterprise funds (see also separate tab of same name) and internal service funds (see also separate tab of same name). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Houston uses enterprise funds to account for its aviation system, combined utility system (formerly called the water and sewer system), and the convention and entertainment facilities. The City also includes the Houston Area Water Corporation as a nonmajor proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Houston's various functions. The City of Houston uses internal service funds to account for health and benefits and long-term disability activities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the aviation system combined utility system and convention and entertainment facilities, all of which are considered to be major funds for the City of Houston. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds (see separate tab of same name) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Houston's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes (see separate tab of same name) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning: General fund – budget vs. actual (pgs. 113-116); general budget policies (pg. 118); and the City of Houston's progress in funding its obligation to provide pension benefits to its employees (pg. 119).

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Houston, on a government-wide basis, assets exceeded liabilities by \$4.4 billion at the close of the most recent fiscal year.

Net Assets
June 30, 2006
 (With comparative totals for 2005)
 (in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 941	\$ 787	2,057	\$ 1,991	\$ 2,998	\$ 2,778
Capital assets	5,699	5,558	7,977	7,850	13,676	13,408
Total assets	6,640	6,345	10,034	9,841	16,674	16,186
Long-term liabilities	3,136	2,995	8,034	7,668	11,170	10,663
Other liabilities	732	511	378	486	1,110	997
Total liabilities	3,868	3,506	8,412	8,154	12,280	11,660
Net assets						
Invested in capital assets, net of related debt	3,340	3,532	977	1,138	4,317	4,670
Restricted	159	169	545	462	704	631
Unrestricted (deficit)	(727)	(862)	100	87	(627)	(775)
Total net assets	\$ 2,772	\$ 2,839	\$ 1,622	\$ 1,687	\$ 4,394	\$ 4,526

By far the largest portion of the City of Houston's net assets (98.2%) reflects its investment in capital assets (e.g., land, building, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Houston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Houston's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City of Houston's net assets (16.0%) represents resources that are subject to external restrictions on how they may be used.

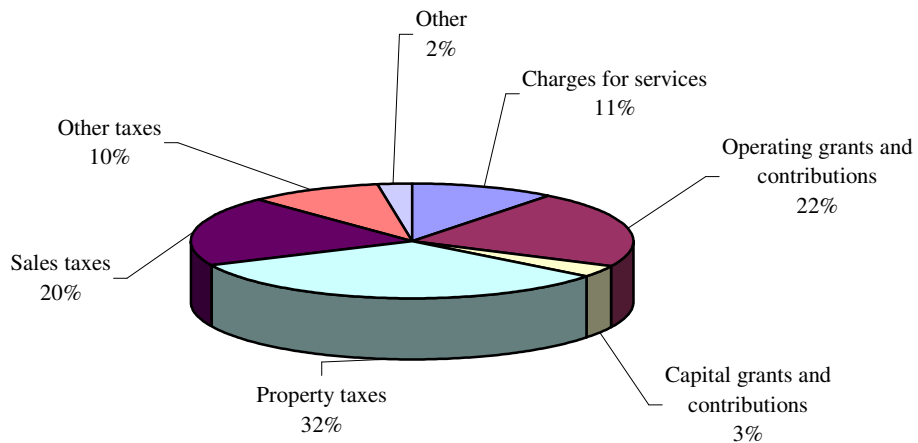
Change in Net Assets
June 30, 2006
(With comparative totals for 2005)
(in millions)

	Governmental		Business-type		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for services	\$ 226	\$ 229	\$ 1,056	\$ 972	\$ 1,282	\$ 1,201
Operating grants and contributions	468	162	4	4	472	166
Capital grants and contributions	69	38	110	106	179	144
General revenues:						
Property taxes	701	665	-	-	701	665
Sales taxes	423	371	-	-	423	371
Other taxes	210	186	55	42	265	228
Other	53	41	81	74	134	115
Total revenues	<u>2,150</u>	<u>1,692</u>	<u>1,306</u>	<u>1,198</u>	<u>3,456</u>	<u>2,890</u>
Expenses:						
General government	131	144	-	-	131	144
Public safety	1,102	1,128	-	-	1,102	1,128
Public works	267	283	-	-	267	283
Health	103	124	-	-	103	124
Housing and community development	318	79	-	-	318	79
Parks and recreation	72	84	-	-	72	84
Library	37	49	-	-	37	49
Retiree benefits	-	29	-	-	-	29
Interest on Long-term Debt	137	116	-	-	137	116
Depreciation and amortization	126	96	-	-	126	96
Airport System	-	-	431	407	431	407
Convention & Entertainment Facilities	-	-	99	134	99	134
Combined Utility System	-	-	752	762	752	762
Houston Area Water Corporation	-	-	18	-	18	-
Total expenses	<u>2,293</u>	<u>2,132</u>	<u>1,300</u>	<u>1,303</u>	<u>3,593</u>	<u>3,435</u>
Change in net assets before contributions, special items and transfers	(143)	(440)	6	(105)	(137)	(545)
Contributions	-	11	-	-	-	11
Special items	5	2	-	-	5	2
Transfers	71	58	(71)	(58)	-	-
Change in net assets	<u>(67)</u>	<u>(369)</u>	<u>(65)</u>	<u>(163)</u>	<u>(132)</u>	<u>(532)</u>
Net assets July 1	2,839	3,208	1,687	1,850	4,526	5,058
Net assets June 30	<u>\$ 2,772</u>	<u>\$ 2,839</u>	<u>\$ 1,622</u>	<u>\$ 1,687</u>	<u>\$ 4,394</u>	<u>\$ 4,526</u>

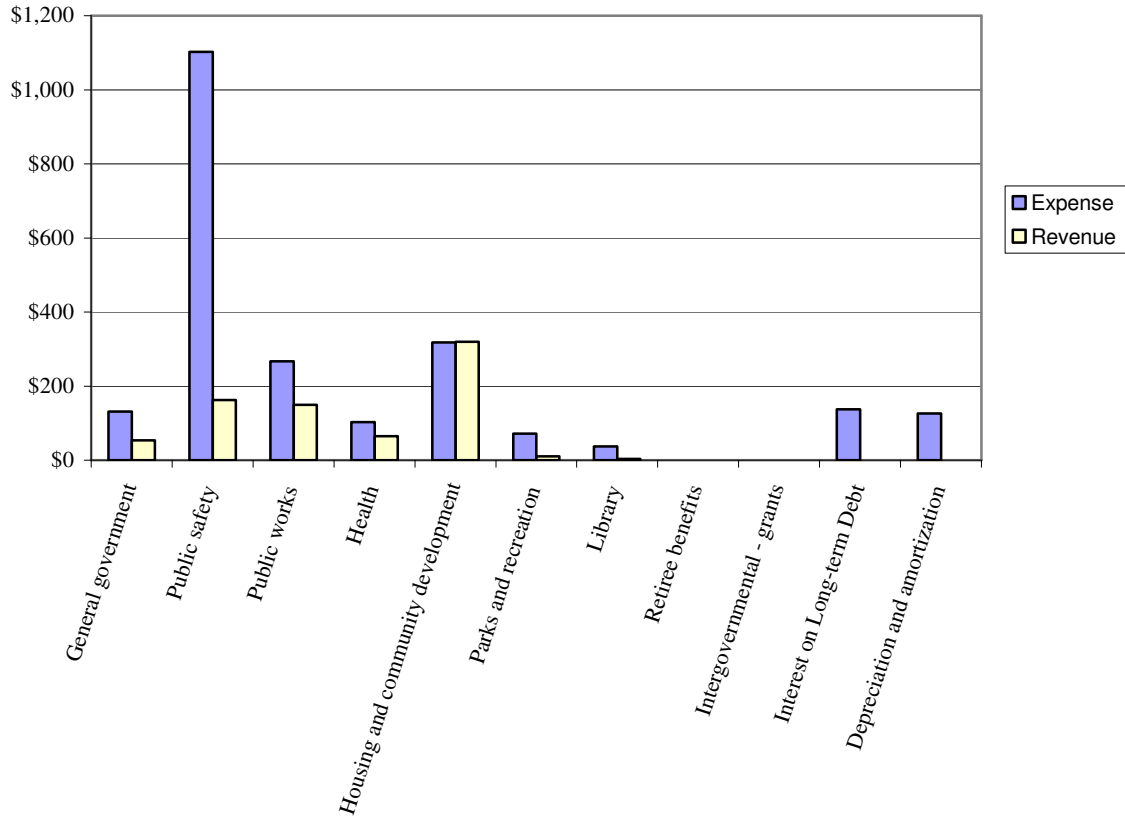
Governmental activities. Governmental activities decreased the City of Houston’s net assets by \$67 million. Key elements of this change are as follows:

- Sales tax revenue continued to show improvements during fiscal year 2006 providing a 14% increase for the year, from \$371 million to \$423 million.
- The City’s property tax rate was lowered by \$.0025 to \$0.6475 per \$100 assessed value. Property tax revenue increased by \$36 million because of the City’s rising property values and continued effort in the collection of delinquent taxes.
- The largest increase in expenses was in the area of Housing & Community Development - \$239 million – reflecting effects of hurricanes Katrina and Rita. This was partially offset by a decrease in the remaining departments by \$100 million.

Revenue by Source - Governmental Activities



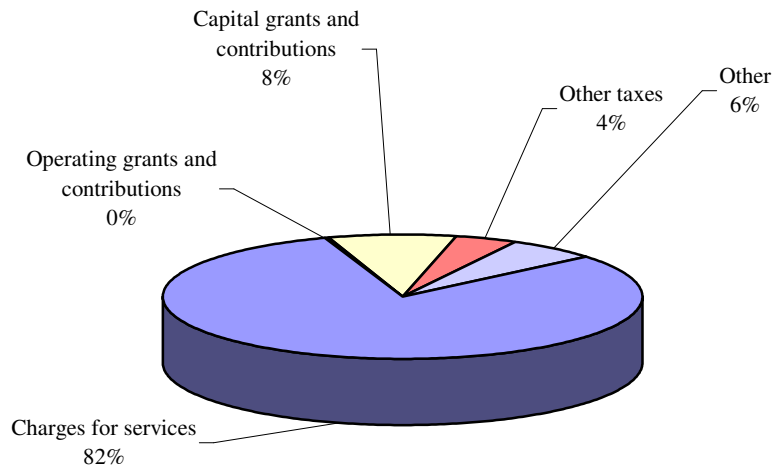
**Program Revenue and Expense
Governmental**



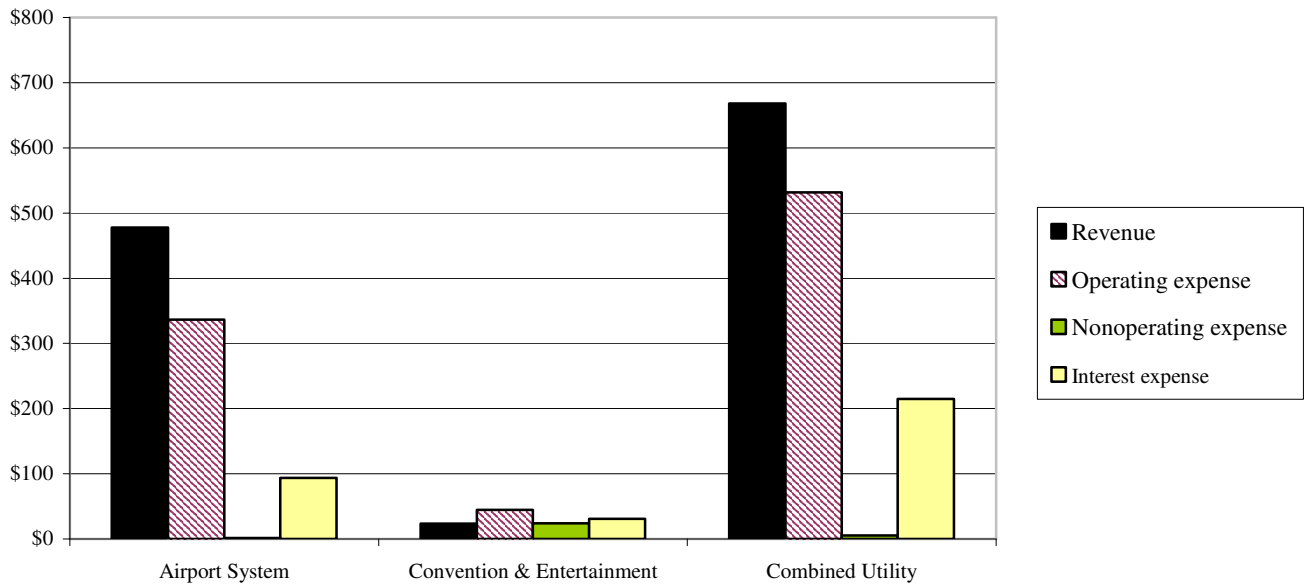
Business-type activities. Business-type activities reduced the City of Houston’s net assets by \$65 million. Key elements of this change are as follows:

- Airport systems operating expenses were up by 2.1%, from \$330 million to \$337 million. Operating revenues for these facilities were up by 11.4%, from \$354 million to \$394 million. Investment income increased by 15.9% from \$16 million to \$19 million.
- Convention & Entertainment operating expenses were up by 2.9%, from \$43 million to \$44 million. Operating revenues were up by 2.2%, from \$19 million to \$20 million. Hotel occupancy taxes increased by 29.6%, from \$42 million to \$55 million. Contributions in were relatively the same at \$4 million.
- The Combined Utility System operating expenses decreased by 4.5% from \$557 million to \$532 million. Operating revenues increased by 7.3% from \$599 million to \$643 million. Investment income was up by 43.8%, from \$13 million to \$19 million and interest expense was up by 6.83% from \$201 million to \$215 million. Also, contributions were down 54.6%, from \$42 million to \$19 million.

Revenue by Source Business-type



**Program Revenue & Expense
Business-type**



Financial Analysis of the Government's Funds

As noted earlier, the City of Houston uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds (see pgs.18-21 and separate tab of same name). The focus of the City of Houston's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Houston's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Houston's governmental funds reported combined ending fund balances of \$506 million. Approximately 54.4% of this total amount (\$275 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for capital expenditures (\$96 million), (2) to pay debt service (\$112 million), or (3) a variety of other restricted purposes (\$23 million).

The general fund is the chief operating fund of the City of Houston. At the end of the current fiscal year, unreserved fund balance of the general fund was \$199 million, while the total fund balance reached \$250 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13% of total general fund expenditures, while total fund balance represents 16% of that same amount.

Key differences between last year's general fund activity and this year's include:

- \$116 million increase in total revenues
- \$182 million increase in expenditures
- \$108 million increase in proceeds for issuance of debt
- \$5 million increase in transfers from other funds
- \$8 million increase in transfers to other funds

The debt service fund has a total fund balance of \$111 million, all of which is reserved for the payment of debt service. The net increase in fund balance during the current fiscal year in the debt service fund was \$3 million. Interest expenditures increased by \$19 million.

The capital projects fund, which is used for the acquisition and/or construction of capital facilities by the City (except those financed by Enterprise Funds), has a fund balance of \$66 million. The net decrease in fund balance during the current fiscal year was \$24 million.

The grants fund is used to account for grant resources received from various local, state and national agencies and organizations. The grants fund has a reserved fund balance of \$12 million.

Proprietary funds (see pgs.24-33 and tabs labeled "Enterprise Funds" and "Internal Services Funds"). The City of Houston proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the year, unrestricted net assets were \$0 for the Airport System, \$25.1 million for Convention and Entertainment, \$74.5 million for the Combined Utility System and \$76 thousand for the Houston Area Water Corporation. The total increase in net assets for the Airport System and the Houston Area Water Corporation funds were \$65 million and \$4.9 million, respectively. The Combined Utility System and the Convention and Entertainment funds experienced decreases of \$132.5 million and \$2.9 million, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Houston's business-type activities.

General Fund Budgetary Highlights

Total revenues were above budget (pgs. 113-116), by \$55 million. The details of the more significant variances are detailed below:

- \$27 million increase in Sales taxes
- \$16 million increase in property taxes
- \$15 million increase in franchise taxes
- \$4 million increase in other revenues
- \$2 million increase in interest
- \$5 million decrease in direct services for other funds
- \$2 million decrease in municipal courts fines and forfeits
- \$1 million decrease in ambulance fees

Total expenditures for the General Fund were \$6 million below the final expenditure budget. The details of the more significant variances are detailed below:

- \$2 million increase in public works
- \$4 million decrease in public safety expenditures
- \$2 million decrease in health
- \$2 million decrease in total general government expenditures
- \$1 million increase in parks

Capital Asset and Debt Administration

Capital assets (see Note 6, Capital Assets, pages 71–73). The City of Houston’s investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$13.7 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, equipment, storm drainage, streets and bridges. The total increase in the City of Houston’s net investment in capital assets for the current fiscal year was 2% (a 2.5% increase for governmental activities and a 1.6% increase for business-type activities).

Capital Assets

June 30, 2006

(With comparative totals for 2005)

(net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 264	\$ 362	\$ 403	\$ 394	\$ 667	\$ 756
Buildings, improvements and equipment	586	554	2,750	2,618	3,336	3,172
Plants, lines and rights	-	-	3,722	3,585	3,722	3,585
Construction in progress	493	354	1,101	1,253	1,594	1,607
Infrastructure Assets	4,356	4,288	-	-	4,356	4,288
Total	\$ 5,699	\$ 5,558	\$ 7,976	\$ 7,850	\$ 13,675	\$ 13,408

Major capital asset events during the current fiscal year included the following:

- Governmental and Business-type activities construction in process balance reflects a \$13 million decrease.
- Governmental and Business-type activities land balance reflects an \$89 million decrease primarily as a result of transferring to infrastructure.
- Business-type activities buildings, improvements and equipment balance reflect a \$132 million increase.

More detailed information about the City's capital assets is presented in Note 6 to the financial statements.

Long-term debt (Note 8, pages 74–91). At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of \$10.5 billion. The two largest portions of this total are made up of \$2.5 billion comprising debt backed by the full faith and credit of the government and \$7.2 billion comprising various enterprise fund revenue bonds which are payable from future revenues of the various operations of those enterprise funds. The City issued \$80 million in pension obligations during the fiscal year to reduce the unfunded liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. The remainder of the City of Houston's debt represents various long-term contracts and capital leases.

Outstanding Debt
June 30, 2006
(With comparative totals for 2005)
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds and commercial paper	\$ 2,221	\$ 2,155	\$ 308	\$ 251	\$ 2,529	\$ 2,406
Pension notes	342	262	96	95	438	357
Inferior lien contract	-	-	56	60	56	60
Capital lease	-	51	-	-	-	51
Revenue bonds	-	-	7,160	6,996	7,160	6,996
Other borrowings	22	23	248	267	270	290
Total	\$ 2,585	\$ 2,491	\$ 7,868	\$ 7,669	\$ 10,453	\$ 10,160

The City's total debt increased by \$293 million or 2.9% during the current fiscal year.

During the current fiscal year, the City issued the following debt:

- \$80 million of pension obligations to reduce unfunded accrued actuarial liability.
- \$254 million of general obligation debt to refund commercial paper, fund a judgment and exercise the purchase option on a capital lease.
- \$164 million of combined utility system revenue bonds to refund prior debt to provide present value savings and refund commercial paper.

Standard & Poor's, Moody's and Fitch's underlying ratings of the City's obligations are as follows:

	<u>Std & Poor's</u>	<u>Moody's</u>	<u>Fitch's</u>
General Obligation	AA-	Aa3	AA-
Water & Sewer System Junior Lien	A+	A1	A+
Combined Utility System First Lien	A+	A2	A
Houston Airport System	A	A1	A+
Convention & Entertainment	A-	A3	n/r

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Houston is \$14.2 billion, which is significantly in excess of the City of Houston's outstanding general obligation debt.

Next Year's Budget and Rates

Highlights of the FY07 budget are as follows:

- Decreased the property tax rate by ¼ cent to 64.50 cents per \$100 of valuation and increased the homestead exemption for senior citizens.
- The public safety budget was increased to primarily provide resources for Firefighter raises, six new police academy classes, a new fire station and the creation of a new Traffic Management Force.

**CITY OF HOUSTON, TEXAS
STATEMENT OF NET ASSETS**

June 30, 2006
(amounts expressed in thousands)

	Governmental Activities	Business-type Activities	Total	Component Units	
				Governmental	Business-type
Assets					
Current Assets					
Equity in pooled cash and investments	\$ 555,876	\$ 1,271,477	\$ 1,827,353	\$ 146,781	\$ 35,696
Receivables, net of allowances					
Accounts receivable	60,381	107,351	167,732	23,983	22,415
Hotel occupancy tax receivable	-	13,900	13,900	-	-
Property taxes receivable	53,326	-	53,326	-	-
Sales taxes receivable	78,027	-	78,027	-	-
Mixed beverage taxes receivable	2,455	-	2,455	-	-
Franchise taxes receivable	16,889	-	16,889	-	-
Special assessments receivable	33,875	97	33,972	-	-
Accrued Interest and other	-	-	-	698	294
Due from component units	13,747	307,264	321,011	-	-
Internal balances	(1,981)	1,981	-	-	-
Due from other governments	91,565	16,875	108,440	3,219	1,464
Inventory	21,344	8,011	29,355	10,547	348
Prepaid items	1,589	5,533	7,122	108	1,088
Deferred charges for issuance cost	14,152	53,468	67,620	5,675	3,136
Restricted assets					
Investments	-	33,230	33,230	8,218	12,604
Other receivables	-	-	-	-	1,575
Assessments receivable	-	-	-	7,021	-
Accrued interest receivable	-	-	-	-	403
Amounts held by other governments	-	-	-	-	22,080
Receivable and deposits	-	-	-	-	2,992
Other assets					
Water rights, net of amortization	-	214,027	214,027	-	-
Other long-term receivables	-	11,793	11,793	-	13,768
Garage rights, net of amortization	-	12,274	12,274	-	-
Capital Assets					
Land	263,764	403,364	667,128	79,008	11,488
Buildings, improvements and equipment	1,188,316	4,086,413	5,274,729	14,801	294,727
Plants, lines and rights	-	7,242,289	7,242,289	-	-
Construction in progress	492,772	1,100,846	1,593,618	3,172	4,957
Infrastructure assets	6,345,900	-	6,345,900	-	-
Less accumulated depreciation					
Buildings, improvements and equipment	(602,154)	(1,335,853)	(1,938,007)	(6,725)	(30,689)
Plants, lines and rights	-	(3,520,257)	(3,520,257)	-	-
Infrastructure assets	(1,989,579)	-	(1,989,579)	-	-
Total assets	\$ 6,640,264	\$ 10,034,083	\$ 16,674,347	\$ 296,506	\$ 398,346

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

**CITY OF HOUSTON, TEXAS
STATEMENT OF NET ASSETS**

June 30, 2006
(amounts expressed in thousands)

	Governmental Activities	Business-type Activities	Total	Component Units	
				Governmental	Business-type
Liabilities					
Accounts payable and accrued expenditures	\$ 101,110	\$ 26,753	\$ 127,863	\$ 8,033	\$ 10,599
Accrued payroll liabilities	38,357	3,410	41,767	7	631
Accrued interest payable	48,034	84,015	132,049	6,697	-
Contracts and retainages payable	37,679	102,081	139,760	10,973	745
Due to component units	-	27,392	27,392	-	-
Due to other governments	12,584	3,640	16,224	3,286	-
Advances and deposits	9,850	32,025	41,875	3,096	-
Other liabilities	-	-	-	2,897	-
Deferred revenue	57,080	8,806	65,886	728	979
Noncurrent liabilities					
Due within one year					
Due to the City of Houston	-	-	-	1,016	11,015
Notes payable	-	-	-	8,968	345
Revenue bonds payable	-	71,263	71,263	4,880	-
Claims and judgments	50,045	3,438	53,483	-	-
Compensated absences	117,505	8,942	126,447	6	-
Deferred electricity note	1,277	3,262	4,539	-	-
Commercial paper	130,400	-	130,400	-	-
Bonds payable	126,353	-	126,353	-	-
Inferior lien contracts	-	3,450	3,450	-	-
Other liabilities	1,680	-	1,680	-	-
Due in more than one year					
Due to the City of Houston	-	-	-	10,451	298,595
Notes payable	-	-	-	24,197	2,094
Revenue bonds payable	-	7,089,362	7,089,362	128,050	-
Claims and judgments	91,472	4,334	95,806	-	-
Compensated absences	238,355	14,128	252,483	-	-
Contracts payable	-	227,885	227,885	5,709	-
Bonds payable	1,681,104	-	1,681,104	-	-
Inferior lien contracts	-	53,360	53,360	-	-
Commercial paper	414,175	308,300	722,475	-	-
Arbitrage rebate	25	121	146	-	-
Other long-term liabilities	20,200	-	20,200	1,109	198
Collateralized note payable	227,003	89,700	316,703	-	-
Deferred electricity note	2,941	7,518	10,459	-	-
Municipal pension trust liability	161,284	63,030	224,314	-	-
Police officers' pension trust liability	179,411	-	179,411	-	-
Fire fighter's pension trust liability	4,847	-	4,847	-	-
Deferred revenue	-	169,999	169,999	-	16,872
Pension obligation bonds payable	115,328	5,577	120,905	-	-
Total liabilities	\$ 3,868,099	\$ 8,411,791	\$ 12,279,890	\$ 220,103	\$ 342,073
Net assets					
Invested in capital assets, net of related debt	3,340,355	976,834	4,317,189	81,014	(30,386)
Restricted net assets					
Restricted for debt service	62,790	53,465	116,255	25,117	13,983
Restricted for renewal and replacement	-	10,000	10,000	-	-
Restricted for maintenance and operations	-	116,434	116,434	7,168	-
Restricted for capital improvement	87,929	365,893	453,822	17,064	-
Other restricted	8,373	-	8,373	33,709	27,888
Unrestricted (deficit)	(727,282)	99,666	(627,616)	(87,669)	44,788
Total net assets	\$ 2,772,165	\$ 1,622,292	\$ 4,394,457	\$ 76,403	\$ 56,273

* The notes to the basic financial statements are an integral part of this statement *

**CITY OF HOUSTON, TEXAS
STATEMENT OF ACTIVITIES**

**For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)**

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 130,807	\$ 52,083	\$ 1,321	\$ -
Public safety	1,102,253	103,719	58,275	-
Public works	266,723	49,797	30,256	69,438
Health	102,716	12,574	51,962	-
Housing and community development	318,450	-	320,057	-
Parks and recreation	72,309	6,687	3,858	-
Library	37,242	1,010	2,227	-
Interest on long-term debt	136,563	-	-	-
Unallocated Depreciation	125,517	-	-	-
Total governmental activities	<u>2,292,580</u>	<u>225,870</u>	<u>467,956</u>	<u>69,438</u>
Business-type activities				
Airport System	431,392	393,861	-	84,105
Convention & Entertainment facilities	99,271	19,599	4,020	-
Combined Utility System	752,122	642,662	-	25,623
Houston Area Water Corporation	17,428	-	-	-
Total business-type activities	<u>1,300,213</u>	<u>1,056,122</u>	<u>4,020</u>	<u>109,728</u>
Total primary government	<u>\$ 3,592,793</u>	<u>\$ 1,281,992</u>	<u>\$ 471,976</u>	<u>\$ 179,166</u>
Component Units				
Governmental	74,176	1,778	38,530	492
Business-type	59,398	46,974	34,307	-
Total component units activities	<u>\$ 133,574</u>	<u>\$ 48,752</u>	<u>\$ 72,837</u>	<u>\$ 492</u>

General Revenues:

- Taxes
 - Property taxes levied for general purposes/tax increments
 - Property taxes levied for debt service
 - Industrial assessments tax
 - Sales tax
 - Franchise tax
 - Mixed beverage tax
 - Bingo tax
 - Hotel occupancy tax
 - Investment earnings
 - Other

Contributions

Special Items - gain on sale of assets

Transfers

Total general revenues, special items, and transfers

- Change in net assets
- Net assets (deficit) beginning
- Net assets ending

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Net (Expense) Revenue and Changes in Net Assets									
Primary Government									
Governmental Activities		Business-type Activities		Total					
			Component Units						
			Governmental	Business-type					
\$	(77,403)	\$	-	\$	(77,403)	\$	-	\$	-
	(940,259)		-		(940,259)		-		-
	(117,232)		-		(117,232)		-		-
	(38,180)		-		(38,180)		-		-
	1,607		-		1,607		-		-
	(61,764)		-		(61,764)		-		-
	(34,005)		-		(34,005)		-		-
	(136,563)		-		(136,563)		-		-
	(125,517)		-		(125,517)		-		-
	<u>(1,529,316)</u>		<u>-</u>		<u>(1,529,316)</u>		<u>-</u>		<u>-</u>
	-		46,574		46,574		-		-
	-		(75,652)		(75,652)		-		-
	-		(83,837)		(83,837)		-		-
	-		(17,428)		(17,428)		-		-
	<u>-</u>		<u>(130,343)</u>		<u>(130,343)</u>		<u>-</u>		<u>-</u>
	<u>(1,529,316)</u>		<u>(130,343)</u>		<u>(1,659,659)</u>		<u>-</u>		<u>-</u>
	-		-		-		(33,376)		-
	-		-		-		-		21,883
	<u>-</u>		<u>-</u>		<u>-</u>		<u>(33,376)</u>		<u>21,883</u>
	505,788		-		505,788		43,968		750
	195,000		-		195,000		-		-
	14,314		-		14,314		-		-
	422,598		-		422,598		-		-
	186,508		-		186,508		-		-
	9,000		-		9,000		-		-
	279		-		279		-		-
	-		54,765		54,765		-		-
	19,889		54,212		74,101		5,759		2,022
	33,674		26,923		60,597		2,650		4,215
	-		-		-		369		-
	4,816		-		4,816		-		-
	70,651		(70,651)		-		-		-
	<u>1,462,517</u>		<u>65,249</u>		<u>1,527,766</u>		<u>52,746</u>		<u>6,987</u>
	(66,799)		(65,094)		(131,893)		19,370		28,870
	<u>2,838,964</u>		<u>1,687,386</u>		<u>4,526,350</u>		<u>57,033</u>		<u>27,403</u>
\$	<u>2,772,165</u>	\$	<u>1,622,292</u>	\$	<u>4,394,457</u>	\$	<u>76,403</u>	\$	<u>56,273</u>

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
BALANCE SHEET — GOVERNMENTAL FUNDS
June 30, 2006
amounts expressed in thousands

	General	Debt Service	Capital Projects
Assets			
Equity in pooled cash and investments	\$ 206,483	\$ 112,905	\$ 97,568
Receivables, net of allowances			
Accounts receivable	17,224	-	1,070
Property taxes receivable	53,326	-	-
Sales taxes receivable	78,027	-	-
Mixed beverage taxes receivable	2,455	-	-
Franchise taxes receivable	16,889	-	-
Special assessments receivable	33,875	-	-
Due from component units	-	5,504	-
Due from other funds	22,355	-	470
Due from other governments	11,609	-	25,993
Inventory	20,472	-	-
Prepaid items	1,589	-	-
Total assets	\$ 464,304	\$ 118,409	\$ 125,101
Liabilities and fund balance			
Liabilities			
Accounts payable	47,259	2,081	14
Accrued payroll liabilities	36,347	-	-
Contracts and retainages payable	199	-	36,660
Due to other funds	3,247	-	-
Due to other governments	12,574	-	-
Advances and deposits	7,403	-	28
Claims and judgments	2,550	-	-
Compensated absences	2,606	-	-
Other liabilities	220	-	-
Deferred revenue	101,469	5,504	22,153
Total liabilities	213,874	7,585	58,855
Fund balance			
Reserved for imprest cash and prepaids	1,696	-	-
Reserved for equipment acquisitions and other capital outlay	29,503	-	66,246
Reserved for inventory	20,472	-	-
Reserved for debt service	-	110,824	-
Unreserved	198,759	-	-
Unreserved - Special revenue funds	-	-	-
Total fund balance	250,430	110,824	66,246
Total liabilities and fund balance	\$ 464,304	\$ 118,409	\$ 125,101

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Assets not available to pay for current-period expenditures are deferred in the funds. Internal service funds are used by management to charge the cost of health, benefits and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.

Liabilities, including bonds payable, not due and payable in the current period are not reported in the funds.

Net assets of governmental activities

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

	Grants	Nonmajor Governmental Funds		Total
\$	49,698	75,854	\$	542,508
	25,831	2,618		46,743
	-	-		53,326
	-	-		78,027
	-	-		2,455
	-	-		16,889
	-	-		33,875
	8,243	-		13,747
	-	224		23,049
	52,314	1,649		91,565
	862	10		21,344
	-	-		1,589
<u>\$</u>	<u>136,948</u>	<u>\$ 80,355</u>	<u>\$</u>	<u>925,117</u>

	44,280	7,413		101,047
	810	1,161		38,318
	621	199		37,679
	22,355	-		25,602
	-	10		12,584
	317	2,095		9,843
	-	-		2,550
	66	76		2,748
	-	3		223
	56,349	2,981		188,456
<u></u>	<u>124,798</u>	<u>13,938</u>	<u></u>	<u>419,050</u>

	-	-		1,696
	-	-		95,749
	862	10		21,344
	1,325	-		112,149
	9,963	-		208,722
	-	66,407		66,407
<u></u>	<u>12,150</u>	<u>66,417</u>	<u></u>	<u>506,067</u>
<u>\$</u>	<u>136,948</u>	<u>\$ 80,355</u>		

5,699,019

160,092

4,450

(3,597,463)

\$ 2,772,165

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES and CHANGES in FUND BALANCES—
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006
amounts expressed in thousands

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Revenues			
Taxes and assessments	\$ 1,338,651	\$ -	\$ -
Licenses and permits	18,086	-	-
Charges for services	114,308	-	-
Intergovernmental - grants	29,816	-	50,211
Fines and forfeits	49,000	-	-
Investment income	10,516	3,399	2,959
Other	16,346	3,010	1,674
Total revenues	<u>1,576,723</u>	<u>6,409</u>	<u>54,844</u>
Expenditures			
Current Expenditures			
General government	114,453	-	118,754
Public safety	916,560	-	24,971
Public works	210,409	-	64,329
Health	46,230	-	-
Housing and Community Development	-	-	-
Parks and recreation	49,161	-	21,295
Library	31,578	-	5,747
Retiree benefits	42,203	-	-
Capital outlay	55,187	-	-
Debt service principal	51,254	169,256	-
Debt service interest	6,591	106,965	-
Debt service fiscal agent & fees	-	6,302	-
Total expenditures	<u>1,523,626</u>	<u>282,523</u>	<u>235,096</u>
Other financing sources (uses)			
Proceeds from issuance of debt	219,618	1,416	208,425
Proceeds from refunded debt	-	169,230	-
Proceeds from bond premium	-	16,912	-
Sale of Land	6,439	-	-
Transfers in	6,089	274,168	7,300
Transfers out	(204,957)	-	(59,766)
Payment to escrow agent for refunded bonds	-	(181,652)	-
Total other financing sources (uses)	<u>27,189</u>	<u>280,074</u>	<u>155,959</u>
Changes in fund balance	80,286	3,960	(24,293)
Fund balances, July 1	170,144	106,864	90,539
Fund balances, June 30	<u>\$ 250,430</u>	<u>\$ 110,824</u>	<u>\$ 66,246</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Grants	Nonmajor Governmental Funds	Total
-	\$ -	\$ 1,338,651
-	24,438	42,524
-	18,853	133,161
414,800	17,452	512,279
-	2,441	51,441
827	2,188	19,889
-	13,941	34,971
<u>415,627</u>	<u>79,313</u>	<u>2,132,916</u>
-	8,565	241,772
35,320	35,896	1,012,747
1,163	59,697	335,598
50,776	231	97,237
322,661	538	323,199
3,267	5,879	79,602
2,245	-	39,570
-	-	42,203
-	6,419	61,606
-	-	220,510
-	-	113,556
-	-	6,302
<u>415,432</u>	<u>117,225</u>	<u>2,573,902</u>
-	4,055	433,514
-	-	169,230
-	-	16,912
-	-	6,439
10,000	39,570	337,127
(1,013)	(6,990)	(272,726)
-	-	(181,652)
<u>8,987</u>	<u>36,635</u>	<u>508,844</u>
9,182	(1,277)	67,858
2,968	67,694	438,209
<u>\$ 12,150</u>	<u>\$ 66,417</u>	<u>506,067</u>

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ 67,858

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation (\$173,903) was less than the increase in capital assets (\$315,117) in the current period. 141,214

Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds. 124,060

Generally, governmental funds report revenue when cash is actually received , or is expected 60 days after the close of the fiscal year. Cash received during the period relates to prior periods. (97,463)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report, as expenditures, the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (229,601)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Governmental funds report payments as expenditures in the period of disbursement. The liquidation of long-term liabilities previously accrued should not be reported in the statement of activities. (75,451)

Internal service funds are used by management to change the costs of certain activities, such as the cost of health benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. 2,584

Change in net assets of governmental activities \$ (66,799)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Airport System</u>	<u>Convention & Entertainment</u>	<u>Combined Utility</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 55,187	\$ 39,904	\$ 174,030
Equity in pooled cash and investments	572,391	34,248	393,668
Receivables, net of allowances			
Accounts receivable	29,598	972	76,781
Hotel occupancy tax receivable	-	13,900	-
Special assessments receivable	-	-	97
Due from component units	-	10,949	-
Due from other funds	505	124	1,924
Due from other governments	9,731	687	6,436
Inventory	3,334	-	4,677
Prepaid items	1,889	603	2,758
Restricted assets			
Investments	8,023	21,774	-
Total current assets	<u>680,658</u>	<u>123,161</u>	<u>660,371</u>
Noncurrent Assets			
Due from component units	-	296,315	-
Deferred charges for issuance cost	1,882	4,032	45,990
Other assets			
Water rights, net of amortization	-	-	214,027
Amount held by other governments	-	-	11,793
Garage rights, net of amortization	-	12,274	-
Total other assets	<u>-</u>	<u>12,274</u>	<u>225,820</u>
Capital assets			
Land	198,614	99,757	102,148
Buildings, improvements and equipment	3,386,063	448,891	226,641
Plants, lines and rights	-	-	7,103,924
Construction in progress	329,210	8,039	763,597
Less accumulated depreciation			
Buildings, improvements and equipment	(1,077,689)	(133,598)	(124,007)
Plants, lines and rights	-	-	(3,517,076)
Net capital assets	<u>2,836,198</u>	<u>423,089</u>	<u>4,555,227</u>
Total noncurrent assets	<u>2,838,080</u>	<u>735,710</u>	<u>4,827,037</u>
Total assets	<u>\$ 3,518,738</u>	<u>\$ 858,871</u>	<u>\$ 5,487,408</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities-Enterprise Funds		Governmental Activities Internal Service Funds
Non-Major Houston Area Water Corp.	Total	
\$ 211	\$ 269,332	\$ 13,368
1,838	1,002,145	-
-	107,351	1
-	13,900	-
-	97	-
-	10,949	-
742	3,295	-
21	16,875	-
-	8,011	-
283	5,533	-
<u>3,433</u>	<u>33,230</u>	<u>-</u>
<u>6,528</u>	<u>1,470,718</u>	<u>13,369</u>
-	296,315	-
<u>1,564</u>	<u>53,468</u>	<u>-</u>
-	214,027	-
-	11,793	-
-	12,274	-
<u>-</u>	<u>238,094</u>	<u>-</u>
2,845	403,364	-
24,818	4,086,413	-
138,365	7,242,289	-
-	1,100,846	-
(559)	(1,335,853)	-
<u>(3,181)</u>	<u>(3,520,257)</u>	<u>-</u>
<u>162,288</u>	<u>7,976,802</u>	<u>-</u>
<u>163,852</u>	<u>8,564,679</u>	<u>-</u>
<u>170,380</u>	<u>\$ 10,035,397</u>	<u>\$ 13,369</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	Business-type Activities - Enterprise Funds		
	Airport System	Convention & Entertainment	Combined Utility
Liabilities			
Current Liabilities			
Accounts payable	\$ 4,143	\$ 8,160	\$ 12,308
Accrued payroll liabilities	1,340	139	1,931
Accrued interest payable	49,070	6,177	26,571
Contracts and retainages payable	23,712	1,055	76,264
Due to other funds	-	-	742
Due to component units	-	27,392	-
Due to other governments	-	5	3,635
Advances and deposits	1,844	851	29,330
Inferior lien contracts	3,450	-	-
Claims and judgments	1,157	81	2,200
Compensated absences	3,286	308	5,348
Deferred electricity note	851	214	2,197
Revenue bonds payable	28,385	14,775	25,618
Deferred revenue	8,127	396	-
Total Current Liabilities	125,365	59,553	186,144
Noncurrent liabilities			
Revenue bonds payable	2,079,461	624,638	4,260,640
Claims and judgments	2,292	213	1,829
Compensated absences	3,530	395	10,203
Contracts payable	-	-	227,885
Inferior lien contracts	53,360	-	-
Commercial paper	59,000	22,500	226,800
Arbitrage rebate	-	121	-
Deferred electricity note	1,961	494	5,063
Pension note payable	34,800	3,300	51,600
Municipal pension trust liability	22,747	2,391	37,892
Deferred revenue	-	11,080	158,919
Pension obligation bonds payable	2,006	189	3,382
Total noncurrent liabilities	2,259,157	665,321	4,984,213
Total liabilities	2,384,522	724,874	5,170,357
Net assets			
Invested in capital assets, net of related debt	688,569	77,320	173,421
Restricted net assets			
Restricted for debt service	37,868	15,597	-
Restricted for renewal and replacement	10,000	-	-
Restricted for maintenance and operations	38,322	15,951	62,733
Restricted for capital improvements	359,457	-	6,436
Unrestricted	-	25,129	74,461
Total net assets	\$ 1,134,216	\$ 133,997	\$ 317,051

Cumulative liability resulting from internal service funds' undercharging proprietary funds

Net assets of business-type activities

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities-Enterprise Funds		Governmental Activities Internal Service Funds
Non-Major Houston Area Water Corp.	Total	
\$ 2,142	\$ 26,753	\$ 63
-	3,410	39
2,197	84,015	-
1,050	102,081	-
-	742	-
-	27,392	-
-	3,640	-
-	32,025	7
-	3,450	-
-	3,438	2,030
-	8,942	89
-	3,262	-
2,485	71,263	-
283	8,806	927
<u>8,157</u>	<u>379,219</u>	<u>3,155</u>
124,623	7,089,362	-
-	4,334	6,274
-	14,128	62
-	227,885	-
-	53,360	-
-	308,300	-
-	121	-
-	7,518	-
-	89,700	-
-	63,030	-
-	169,999	-
-	5,577	-
<u>124,623</u>	<u>8,033,314</u>	<u>6,336</u>
132,780	8,412,533	9,491
37,524	976,834	-
-	53,465	-
-	10,000	-
-	117,006	-
-	365,893	-
76	99,666	3,878
<u>\$ 37,600</u>		<u>\$ 3,878</u>
	(572)	
	<u>\$ 1,622,292</u>	

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006
amounts expressed in thousands

	Business-type Activities - Enterprise Funds		
	Airport System	Convention & Entertainment	Combined Utility
Operating Revenues			
Landing area fees	\$ 101,758	\$ -	\$ -
Terminal space rentals	179,951	-	-
Parking	62,377	8,984	-
Concession	46,507	3,920	-
Other	3,268	-	-
Rental	-	6,695	-
Water/Sewer Billing	-	-	642,662
Health benefit premiums	-	-	-
Total operating revenue	393,861	19,599	642,662
Operating Expenses			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	202,496	33,437	302,955
Depreciation and amortization	134,150	10,984	228,665
Total operating expenses	336,646	44,421	531,620
Operating income (loss)	57,215	(24,822)	111,042
Nonoperating revenue (expenses)			
Investment income	18,667	16,729	18,650
Hotel occupancy tax	-	54,765	-
Other revenue	56	170	26,557
Loss on disposal of assets	(1,297)	-	(5,571)
Other expenses	-	(23,880)	(51)
Interest on long-term debt	(93,449)	(30,970)	(214,880)
Contributions in	-	4,020	-
Total nonoperating revenues (expenses)	(76,023)	20,834	(175,295)
Income (loss) before capital contributions and transfers	(18,808)	(3,988)	(64,253)
Capital contributions	84,105	72	19,301
Transfers in	-	1,000	-
Transfers out	-	-	(87,557)
Total transfers	-	1,000	(87,557)
Change in net assets	65,297	(2,916)	(132,509)
Liability resulting from internal service fund's undercharging proprietary funds			
Net change			
Total net assets (deficit), July 1	1,068,919	136,913	449,560
Total net assets, June 30	\$ 1,134,216	\$ 133,997	\$ 317,051

Cumulative liability resulting from internal service funds' undercharging proprietary funds

Total net assets business-type activities

(Continued)

* The notes to the basic financial statement are an integral part of this statement *

Business-type Activities Enterprise Funds		Governmental Activities Internal Service Funds
Non-Major Houston Area Water Corp.	Total	
\$ -	\$ 101,758	\$ -
-	179,951	-
-	71,361	-
-	50,427	-
-	3,268	-
-	6,695	-
-	642,662	-
-	-	231,840
-	1,056,122	231,840
-	-	3,134
-	-	226,807
7,485	546,373	-
3,740	377,539	-
11,225	923,912	229,941
(11,225)	132,210	1,899
166	54,212	685
-	54,765	-
-	26,783	-
-	(6,868)	-
-	(23,931)	-
(6,203)	(345,502)	-
-	4,020	-
(6,037)	(236,521)	685
(17,262)	(104,311)	2,584
-	103,478	-
22,156	23,156	-
-	(87,557)	-
22,156	(64,401)	-
4,894	(65,234)	2,584
	140	
	(65,094)	
32,706	1,688,098	1,294
\$ 37,600	1,623,004	\$ 3,878
	(712)	
	\$ 1,622,292	

* The notes to the basic financial statement are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006
amounts expressed in thousands

	Business-type Activities - Enterprise Funds	
	Airport System	Convention & Entertainment
Cash flows from operating activities		
Receipts from customers	\$ 401,714	\$ 19,075
Payments to employees	(76,049)	(7,062)
Payments to suppliers	(88,223)	(20,412)
Internal activity-payments (to) from other funds	(35,296)	(471)
Claims paid	(1,157)	90
Due from other governments	-	1
Other revenues	56	170
Other expenses	-	(2,018)
Net cash provided by (used in) operating activities	<u>201,045</u>	<u>(10,627)</u>
Cash flows from investing activities		
Interest income on investments	22,515	17,192
Purchase of investments	(432,810)	(47,611)
Proceeds from sale of investments	402,535	48,948
Net cash provided by (used in) investing activities	<u>(7,760)</u>	<u>18,529</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(27,665)	(13,680)
Proceeds (uses of cash) from issuance of revenue bonds	(655)	-
Proceeds from issuance of commercial paper	10,500	-
Interest expense on debt	(109,708)	(23,094)
Retirement of inferior lien contract	(1,628)	-
Proceeds from disposition of assets	-	-
Advances and deposits on construction	9	-
Contributed capital	85,342	-
Deferred bond issuance costs	-	-
Acquisition of property, plant and equipment	(138,311)	(5,964)
Net cash provided by (used in) capital and related financing activities	<u>(182,116)</u>	<u>(42,738)</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds			Governmental Activities
Combined Utility	Nonmajor	Total	Internal Service Funds
\$ 638,773	-	\$ 1,059,562	\$ 231,841
(116,485)	-	(199,596)	(2,134)
(177,594)	(5,512)	(291,741)	(37,037)
(10,776)	7,484	(39,059)	(47)
(2,230)	-	(3,297)	(226,077)
-	-	1	-
24,147	-	24,373	-
-	-	(2,018)	-
<u>355,835</u>	<u>1,972</u>	<u>548,225</u>	<u>(33,454)</u>
22,435	166	62,308	685
(631,741)	-	(1,112,162)	-
<u>573,538</u>	<u>2,132</u>	<u>1,027,153</u>	<u>-</u>
<u>(35,768)</u>	<u>2,298</u>	<u>(22,701)</u>	<u>685</u>
(50,166)	(2,365)	(93,876)	-
431	-	(224)	-
250,000	-	260,500	-
(206,422)	(450)	(339,674)	-
-	-	(1,628)	-
(4,655)	-	(4,655)	-
-	13,668	13,677	-
65,722	-	151,064	-
5,377	-	5,377	-
<u>(303,172)</u>	<u>(14,912)</u>	<u>(462,359)</u>	<u>-</u>
<u>(242,885)</u>	<u>(4,059)</u>	<u>(471,798)</u>	<u>-</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006
amounts expressed in thousands

	Business-type Activities - Enterprise Funds	
	Airport System	Convention & Entertainment
Cash flows from noncapital financing activities		
Promotional contract paid from hotel occupancy tax revenues to component units	-	(21,862)
Interest expense on pension obligation bonds	(98)	(10)
Interest expense collateralized note	(2,637)	(222)
Other revenues	-	-
Payments from Hotel Corporation	-	14,057
Hotel occupancy tax revenue	-	53,768
Transfers to debt service fund	-	-
Transfers to other funds	-	-
Net cash provided by (used in) noncapital financing activities	<u>(2,735)</u>	<u>46,731</u>
Net increase (decrease) in cash and cash equivalents	8,434	11,895
Cash and cash equivalents, July 1	<u>46,753</u>	<u>28,009</u>
Cash and cash equivalents, June 30	<u>\$ 55,187</u>	<u>\$ 39,904</u>
Non cash transactions		
Amortization expense	-	-
Unrealized gain (loss) on investments	(4,007)	464
Contributions of capital assets	-	72
Capitalized interest expense	19,913	513
Gain (loss) on disposal of assets	1,297	-
Total non cash transactions	<u>\$ 17,203</u>	<u>\$ 1,049</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 57,215	\$ (24,822)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	134,150	10,984
Other revenues	56	-
Other expenses	-	(1,848)
Changes in assets and liabilities		
Accounts receivable and prepaids	858	(217)
Due from other funds	3,850	322
Due from other governments	-	-
Inventory and prepaid insurance	(382)	(163)
Accounts payable	(475)	5,453
Accrued payroll liabilities	575	58
Due to other funds	(2,863)	(37)
Due to other governments	-	1
Advances and deposits	7,002	384
Claims and judgments-workers' compensation	781	182
Compensated absences	116	61
Pension note	-	-
Pension Obligation payable	162	-
Deferred revenue	-	(691)
Other long-term liabilities	-	(294)
Net cash provided by (used in) operating activities	<u>\$ 201,045</u>	<u>\$ (10,627)</u>

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
Combined Utility	Nonmajor	Total	
-	-	(21,862)	-
(165)	-	(273)	-
(3,472)	-	(6,331)	-
-	-	-	-
-	-	14,057	-
-	-	53,768	-
(26,257)	-	(26,257)	-
(61,351)	-	(61,351)	-
(91,245)	-	(47,249)	-
(14,063)	211	6,477	(32,769)
188,093	-	262,855	46,137
<u>\$ 174,030</u>	<u>\$ 211</u>	<u>\$ 269,332</u>	<u>\$ 13,368</u>
-	92	92	-
5,176	-	1,633	-
19,301	-	19,373	-
29,695	542	50,663	-
5,571	-	6,868	-
<u>\$ 59,743</u>	<u>\$ 634</u>	<u>\$ 78,629</u>	<u>\$ -</u>
\$ 111,042	\$ (11,225)	\$ 132,210	\$ 1,899
228,665	3,740	377,539	-
26,557	7,484	34,097	-
-	-	(1,848)	-
(7,087)	(60)	(6,506)	-
3,565	-	7,737	2
(5,204)	-	(5,204)	-
(831)	-	(1,376)	-
1,373	2,033	8,384	(34,519)
215	-	848	14
(5,938)	-	(8,838)	(2)
-	-	1	-
3,197	-	10,583	(2,132)
(1,068)	-	(105)	738
(865)	-	(688)	25
(1,175)	-	(1,175)	-
7,261	-	7,423	-
(3,872)	-	(4,563)	521
-	-	(294)	-
<u>\$ 355,835</u>	<u>\$ 1,972</u>	<u>\$ 548,225</u>	<u>\$ (33,454)</u>

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006
amounts expressed in thousands

	Pension Trust	Agency Funds
Assets		
Cash	\$ 5,645	\$ -
Equity in pooled cash and investments	-	13,607
Investments		
U.S. government and agency securities	57,379	-
Corporate bonds	75,568	-
Other fixed income securities	1,694,965	-
Commingled equity funds	548,133	-
Common and preferred stock	2,984,555	-
Real estate and partnerships	1,524,664	-
Short-term investment funds	298,431	-
Invested securities lending collateral	1,245,098	-
Receivables, net of allowances		
Accounts receivable	24,888	121
Contributions	3,788	-
Accrued interest and other	427,661	-
Other Assets	9,820	-
Land	483	-
Building	7,488	-
Total assets	8,908,566	13,728
Liabilities		
Accounts payable	69,648	13,599
Advances and deposits	-	129
Security lending collateral	1,245,098	-
Foreign funds contracts payable	68,965	-
Other liabilities	3,570	-
Total liabilities	1,387,281	\$ 13,728
Net assets		
Held in trust for pension benefits and other purposes	\$ 7,521,285	

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
PENSION TRUST FUNDS
For the Years Ended June 30, 2006
amounts expressed in thousands

	2006
Additions	
Contributions:	
City of Houston	\$ 168,816
Plan members	69,221
Total Contributions	238,037
Investment earnings	
Interest and dividends	232,933
Net increase in the fair value of investments	741,963
Total investment earnings	974,896
Less investment expense	(57,478)
Net investment earnings	917,418
Total additions	1,155,455
 Deductions	
Benefits	378,597
Refund of contributions	2,002
Administrative expense	15,635
Total deductions	396,234
Change in net assets	759,221
Total net assets, July 1	6,762,064
Total net assets, June 30	\$ 7,521,285

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS



CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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CITY OF HOUSTON, TEXAS



CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 1: Summary of Significant Accounting Policies

The City of Houston, Texas ("City") was incorporated under the laws of the Republic of Texas in 1837 and again under the laws of the State of Texas in 1905. The City operates under a Home Rule Charter with a Mayor-Council form of government and provides the following services as authorized or required by its charter: public safety (police and fire), highways and streets, sanitation, water, airports, health services, culture-recreation, storm drainage, solid waste disposal, planning and inspection, civil defense, public improvements, and general administrative services, including pension and other benefits for its employees.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board ("GASB"), which establishes combined statements as the required reporting level for governmental entities that present financial statements in accordance with generally accepted accounting principles.

The significant accounting policies of the City are as follows:

A. Principles Used in Determining the Reporting Entity for Financial Reporting Purposes

The accompanying financial statements include financial statements for related organizations in accordance with GASB Statement No.14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Blended component units (although legally separate entities) are, in substance, part of the City's operations. Blended component units provide services exclusively or almost exclusively for the City. Both governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize their legal separateness from the City.

B. Basis of Presentation - Financial Reporting Entity

1. Component Units

Most component units of the City issue separately audited financial statements. Component units are reported in the City's Comprehensive Annual Financial Report ("CAFR") as shown in the following tables. Additional information is available from the addresses shown.

There are three specific tests for determining whether a particular legally separate entity is a component unit of a primary government's financial reporting entity. Those tests involve 1) appointment of the unit's governing board (accompanied by either the potential imposition of will or ongoing financial benefit/burden), 2) fiscal dependence on the primary government, and 3) the potential that exclusion would result in misleading financial reporting. For this last test, special attention must be paid 1) to certain special financing authorities and 2) to the nature and significance of a legally separate, tax-exempt entity's relationship with the primary government and its component units.

Following are the City's blended component units:

Blended Component Units Reported with the Primary Government	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
<p><i>Houston Area Water Corporation</i> <i>611 Walker, Suite 2100</i> <i>Houston, TX 77002</i></p>	<p>The Corporation is organized for the purpose of: providing treated, potable water to the City of Houston for sale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District, and; aiding and assisting the City of Houston in performing its obligations with respect to a regional groundwater reduction plan by, among other things, constructing, improving, equipping, repairing, operating and maintaining water treatment and distribution facilities and purchasing and selling water in connection therewith. The City appoints its Board and a financial benefit/burden relationship exists, allowing the city to impose its will. In addition, there is a fiscal dependency on the City.</p>

Reporting Fund: Business Type, Non-Major

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

**Blended Component Units Reported with
the Primary Government**

Brief Description of Activities, Relationship to the City and Key Inclusion Criteria

*Houston Firefighters' Relief & Retirement
Fund*
4225 Interwood North Parkway
Houston, TX 77032

Responsible for administration, management, and operation of the pension system solely for active and retired City of Houston firefighters. One member of the Board is either the Mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

Reporting Fund: Houston Firefighters' Relief and Retirement Pension Trust Fund.

*Houston Municipal Employee's
Pension System*
1111 Bagby, Suite 2450
Houston, TX 77002

Responsible for administration, management, and operation of the pension system solely for active and retired municipal (non-classified) employees of the City. One member of the Board is appointed by the Mayor, one member of the Board is appointed by the City Controller, four are elected by active employees, two are elected by retirees, one is appointed by the elected trustees and two are appointed by the governing body of the City. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

Reporting Fund: Houston Municipal Employee's Pension Trust Fund.

*Houston Police Officer's Pension
System*
602 Sawyer, Suite 300
Houston, TX 77007

Responsible for administration, management, and operation of the pension system solely for active and retired police officers of the City. One member of the Board is appointed by the Mayor, three are elected by employees, two are elected by retirees, and one is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

Reporting Fund: Police Officer's Pension Trust Fund.

Following are the City's discretely presented business type component units:

Discretely Reported Component Units

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria

*Houston Convention Center Hotel
Corporation ("HCCHC")*
c/o George R. Brown
Avenida De Las Americas
Houston, TX 77010

Local government corporation created by the City in accordance with the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code authorized to construct, improve, enlarge, equip, repair, operate and maintain a hotel in downtown Houston within one thousand feet of the George R. Brown Convention Center. Board members are appointed by the Mayor and confirmed by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.

*Houston Housing Finance Corporation
("HHFC")*
9545 Katy Freeway, Suite 105.
Houston, TX 77024

Non-profit corporation incorporated by the City in accordance with the Texas Housing Finance Corporation Act to finance residential mortgage loans to low or moderate-income persons through the sale of revenue bonds collateralized by the mortgage loans. The Board is nominated by the Mayor and confirmed by City Council. The City has financial accountability because it appoints a voting majority of the Board and a financial benefit/burden relationship exists, allowing the City to impose its will.

Houston Zoo, Inc.
1513 N. MacGregor
Houston, TX 77030

Houston Zoo, Inc. (HZI) is a 501 (c)(3) corporation and has a contract with Houston Zoo Development Corp to operate the Zoo. The Mayor may appoint up to 20% of the Board of Directors of HZI. Houston Zoo Development Corporation (HZDC) is a local government corporation that leases the zoo from the City. The lease provides for the City to make payments in support of capital and operating expenses over the lease term, which it makes available to HZI. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Following are the City's discretely presented governmental fund component units.

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<p><i>City Park Redevelopment Authority</i> <i>c/o Hawes Hill Calderon LLP</i> <i>P.O. Box 22167</i> <i>Houston, Texas 77227</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the City Park Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood northwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by the City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><i>East Downtown Redevelopment Authority</i> <i>c/o Hawes Hill Calderon LLP</i> <i>P.O. Box 22167</i> <i>Houston, Texas 77227</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the East Downtown Tax Increment Zone Board in the redevelopment of a blighted neighborhood east of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><i>Fourth Ward Redevelopment Authority</i> <i>c/o Zinetta Burney, General Counsel</i> <i>Burney & Foreman</i> <i>5445 Almeda Suite 400</i> <i>Houston, Texas 77004</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Fourth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. The City has investment authority for the Zone's assets.</p>
<p><i>Greater Greenspoint Redevelopment Authority</i> <i>16945 Northchase Dr, Suite 1900</i> <i>Houston, Texas 77060</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Greater Greenspoint Tax Increment Reinvestment Zone Board in the redevelopment of the Greenspoint Mall and blighted adjacent neighborhood in North Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.</p>
<p><i>Greater Houston Convention and Visitors Bureau</i> <i>901 Bagby, Suite 1005</i> <i>Houston, Texas 77002</i></p>	<p>A non-profit organization established in 1963 and funded by both private sector memberships and a portion of the hotel bed tax. Their mission is to improve the economy of Greater Houston by attracting conventions, tourists, film projects and international government officials to the area through sales and marketing efforts. The City has financial accountability because it must approve the members of the board of directors and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><i>Gulfgate Redevelopment Authority</i> <i>c/o Knudson & Associates</i> <i>8588 Katy Freeway, Suite 441</i> <i>Houston, Texas 77024</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Gulfgate Tax Increment Reinvestment Zone Board in the redevelopment of the Gulfgate Mall and blighted adjacent neighborhood southeast of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.</p>
<p><i>HALAN – Houston Area Library Automated Network Board</i> <i>Houston Central Library</i> <i>500 McKinney</i> <i>Houston, TX 77002</i></p>	<p>Provides review and guidance to the operation, funding and development of the Houston Area Library Automated Network, which provides library services to Houston and surrounding communities. Three members are appointed by City Council, two by the County, and one elected by the smaller libraries. The City does not appoint a voting majority, but is financially accountable for this organization because HALAN is fiscally dependent on the City for all revenues, allowing the City the ability to impose its will.</p>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Houston Arts Alliance(Cultural Arts Council of Houston)
("CACH")/Harris County
3201 Allen Parkway, Suite 250
Houston, TX 77019

Non-profit organization that is the officially designated arts agency of the City. The City does not appoint a voting majority, but is financially accountable because CACH is fiscally dependent on the revenues provided from a portion of hotel occupancy tax, which is levied by the City. This fiscal dependency allows the City to impose its will.

Houston Business Development Inc.
5330 Griggs Road
Houston, Texas 77021

A non-profit organization established by the City of Houston in 1986, providing loans and management counseling to small and emerging businesses, and encouraging the expansion of commercial and industrial enterprises. The City has financial accountability because the voting majority of the board members are appointed by City Council and the operations provide financial benefits to the City. Its primary source of funding is through community Development Block Grants and there is the potential that exclusion would result in misleading financial reporting.

Houston Downtown Park Corporation
2217 Welch
Houston, TX 77019

Local government corporation created by the City in 2004 in accordance with Chapter 431 of the Texas Transportation Corporation Act to aid and act on behalf of the City to accomplish the City's governmental purpose of providing for the acquisition, development, operation, and maintenance of a new public park, open space and related amenities and facilities to provide recreational, educational and tourism opportunities within, and beautification of the Central Business District of the City. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.

Houston Library Board
Houston Central Library
500 McKinney
Houston, TX 77002

Solicits and manages funds raised privately for library improvements. Advises the Mayor and City Council on additions and improvements to the library system that provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. There is a potential that exclusion would result in misleading financial reporting.

Houston Parks Board
2001 Kirby Dr., Suite 814
Houston, Texas 77019

Solicits and manages funds raised privately for park acquisitions and advises the Mayor and City Council on park acquisitions and improvements, which provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. Upon dissolution, all assets revert to the City. There is a potential that exclusion would result in misleading financial reporting.

Lamar Terrace Public Improvement District
City of Houston
Box 1562
Houston, Texas 77251

Special district organized under state statute to redevelop a blighted neighborhood in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City, allowing the City to impose its will.

Land Assemblage Redevelopment Authority
City of Houston
Box 1562
Houston, Texas 77251

The Land Assemblage Redevelopment Authority (LARA) is a 13-member board appointed by the Mayor, City Council, Harris County and the Houston Independent School District. The LARA Authority is organized for the purpose of aiding, assisting and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the City and in undertaking and completing one or more projects, as may be defined or determined by the City Council of the City.

Main Street Market Square
Redevelopment Authority
909 Fannin St., Suite 1650
Houston, Texas 77002

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Main St./Market Square Tax Increment Reinvestment Zone Board in the redevelopment of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

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Memorial City Redevelopment Authority
c/o Knudson & Associates
8588 Katy Freeway, Suite 441
Houston, Texas 77024

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial City Tax Increment Reinvestment Zone Board in the redevelopment of the Memorial City Mall and Town & Country Mall areas, west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Memorial-Heights Redevelopment Authority
c/o Knudson & Associates
12 Greenway Plaza, Suite 1500 Houston,
Texas 77046-1287

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial Heights Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Midtown Redevelopment Authority
3401 Louisiana, Suite 355
Bienville Building
Houston, Texas 77002

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Midtown Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Old Sixth Ward Redevelopment Authority
c/o Parke Patterson Consultants, Inc.
P.O. Box 994
Sugar Land, Texas 77487

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Old Sixth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets, and the City maintains the books and records.

OST/Alameda Corridors Redevelopment Authority
5445 Alameda Suite 502
Houston, Texas 77004

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the OST/Alameda Corridors Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Saint George Place Redevelopment Authority
c/o Hawes Hill Calderon LLP
P.O. Box 22167
Houston, Texas 77227-2167

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the St. George Place Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood in southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets, and the City maintains the books and records.

Sharpstown Economic Development Authority
c/o Hawes, Hill & Associates
P.O. Box 22167
Houston, Texas 77227-2167

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to manage and administer the Sharpstown Public Improvement District (the "PID"), created under Chapter 372 of the Local Government Code. Board members are appointed by the Mayor and approved by City Council.

South Post Oak Redevelopment Authority
c/o Knudson & Associates
8588 Katy Frwy.
Houston, Texas 77024

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the South Post Oak Tax Increment Reinvestment Zone Board in the development of an affordable housing project in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Southwest Houston Redevelopment Authority
c/o Hawes Hill Calderon LLP
P.O. Box 22167
Houston, Texas 77227-2167

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Southwest Houston Tax Increment Reinvestment Zone Board in the redevelopment of the Sharpstown Mall and adjacent neighborhoods southwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

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Upper Kirby Redevelopment Authority
3015 Richmond Avenue, Suite 200,
Houston, Texas 77098-3114

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Upper Kirby Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Uptown Development Authority
1980 Post Oak Blvd., Suite 1580
Houston, Texas 77056

Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Uptown Tax Increment Reinvestment Zone Board in the redevelopment of the Galleria Mall area, west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

2. Related Organizations

The following entities are related organizations to which the City appoints board members but for which the City has no significant financial accountability. Some of these organizations are Access Houston Cable Corporation, Coastal Water Authority, Employees Deferred Compensation Plan, Harris County–Houston Sports Authority, Metropolitan Transit Authority of Harris County, Houston Clean City Commission, and the Miller Theater Advisory Council. All transactions with these related organizations are conducted in the ordinary course of business. Further financial information is available from the respective organizations.

C. Basis of Presentation – Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The accounts of the City are organized on the basis of funds, each of which is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. The type and purpose of funds is described below.

Fund Accounting

1. The City reports the following major governmental funds:

- (a) ***General Fund*** - is the principal operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.
- (b) ***Debt Service Fund*** - is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of tax supported debt.
- (c) ***Capital Projects Fund*** - is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Such resources are derived principally from proceeds of public improvement bonds and from special assessments.
- (d) ***Grants Fund*** - The Grants Fund is used to account for grant resources received from various local, state and national agencies and organizations. The use of these resources is restricted to a particular function of the City by each grantor.

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2. The City reports the following major enterprise funds:
- (a) ***Airport System Fund*** - is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Field.
 - (b) ***Convention and Entertainment Facilities Fund*** - is used to account for the operations of the City's major entertainment facilities, outdoor venues, and parking garages and surface lots. These assets include, but are not limited to, the following: George R. Brown Convention Center, Gus S. Wortham Center, Jesse H. Jones Hall, Houston Center for the Arts, Talento Bilingue de Houston, Jones Plaza, and Theater District parking garages.
 - (c) ***Combined Utility System Fund*** - is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.
3. The City reports the following fund types:
- (a) ***Nonmajor Special Revenue Funds*** - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.
 - (b) ***Internal Service Funds*** - are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.
 - (c) ***Fiduciary Fund Types*** - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:
 - (1) ***Pension Trust Funds*** - are used to account for the assets held in trust for the members and beneficiaries of the City's three defined benefit pension plans.
 - (2) ***Agency Funds*** - are custodial in nature and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements display information about the City of Houston as a whole. Government-wide statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with Statement of Government Accounting Standards No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Program revenues include (1) amounts received from those who purchase, use, or directly benefit from a program, (2) amounts received from parties outside the City of Houston's citizenry that are restricted to one or more specific programs and (3) earnings on investments that are legally restricted for a specific program. Program revenue is divided into three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions.

All governmental funds are accounted for using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of certain long-term receivables, primarily property taxes and special assessments, are reported on the balance sheets of governmental funds in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund revenues represented by noncurrent receivables is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Proprietary funds and pension trust funds of the primary government and blended Component Units are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. In accordance with GASB Statement No. 20, the City has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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The City has elected not to follow FASB pronouncements issued subsequent to that date. All proprietary funds define operating revenues consistent with the precepts of Statement of Government Accounting Standards No. 9 paragraphs 16 – 19 and 31: cash receipts from customers, cash receipts from interfund services provided and used with other funds and other operating cash receipts. All other revenue recognized is non-operating.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current period. Expenditures are generally recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred, if measurable. Claims, judgments and compensated absences are recognized when matured. The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; mixed beverage tax; franchise fees; fines and forfeits; ambulance receipts; and investment earnings. Intergovernmental revenue from reimbursable grants and capital projects is recognized when the related expenditure is incurred.

All proprietary and pension trust funds use the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred.

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied. Administrative overhead charges are included in direct program expenses.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

The City's investment policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities are to have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance.

Substantially all cash, except for imprest accounts, is deposited with financial institutions in interest bearing accounts or is invested. The majority of the City's cash and investments are administered using a pooled concept, which combines the monies of various funds for investment purposes. Interest earnings of the pool are apportioned to each fund, unless otherwise required by bond covenants, based on the fund's relative share of the investment pool. Amounts on deposit in interest bearing accounts and other investments are displayed on the statement of net assets as "Equity in pooled cash and investments" and in accordance with GASB Statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools, are carried at fair value. The blended and discretely presented component units separately invest their funds and report investments pursuant to their respective investment policies described in their separately audited financial statements at their fair values.

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances, generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized Certificates of Deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; no-load money market mutual funds registered and regulated by the Securities and Exchange Commission; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms. Investments are carried at fair value based on quoted market prices.

2. Inventories of Materials and Supplies

With the exception of fuel, inventories are carried at the average cost in government-wide, proprietary and governmental funds. Inventories are presented under the consumption method. These inventories include: automobile parts, chemical and medical supplies, uniforms and their accessories, vaccines and office supplies. Fuel is carried based on the first-in, first-out inventory method.

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3. Capital Assets

a. Governmental Funds - Property, Plant, Equipment, and Infrastructure

Asset valuation is based on historical costs or estimated historical costs, if original costs are not available.

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds.

Capital Assets, which include land; building and improvements; improvements other than buildings, machinery and equipment; construction in progress; and infrastructure (e.g. storm drainage, streets and bridges), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. These capital assets include the estimated historical cost of infrastructure acquired prior to fiscal year 1981. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as a part of the capitalized value of the assets constructed.

Buildings and improvements (improvements other than buildings, machinery and equipment and infrastructure) are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Life
Buildings and improvements	Range from 15 to 45 years
Improvements other than buildings	Range from 15 to 30 years
Machinery	Range from 4 to 30 years
Equipment	Range from 4 to 15 years
Storm drainage	50 years
Streets	Range from 6 to 50 years
Bridges	Range from 20 to 50 years

b. Enterprise Funds – Property, Plant and Equipment

Property, plant, and equipment owned by the Enterprise Funds are stated at cost or estimated historical cost if original cost is not available. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are substantially complete. At that point, the project is moved to the appropriate asset category and depreciation begins. Depreciation on equipment begins in the year of acquisition. Land and equipment costs are added to the capital asset base in the year of acquisition. Interest costs on funds borrowed to finance the construction of property, plant and equipment of the enterprise funds are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. For fiscal year 2006, the capitalized interest cost for the Airport System Facilities was \$19.9 million, Combined Utility System Fund was \$29.7 million and Convention & Entertainment Facilities Fund was \$.531 million.

Depreciation is computed using the straight-line method on the composite asset base over the estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Airport System Facilities	4-45
Convention & Entertainment Facilities	4-45
Combined Utility System Facilities	5-50

Water rights and conveyance system rights of the Combined Utility System Fund are amortized over the life of the related contracts. These rights are reported as other assets.

4. Bond Discounts and Issuance Costs

Bond discounts and issuance costs in Enterprise Funds are amortized over the term of the bonds using the effective interest method. Gains or losses on Enterprise Fund refundings are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method.

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5. Fund Balance

- a. **Reserve** - Indicates that portion of a fund balance that has been legally segregated (e.g., by bond ordinance) for specific purposes.
- b. **Designated Fund Balance** - Indicates that portion of a fund balance for which the City has made tentative plans.
- c. **Undesignated Fund Balance** - Indicates that portion of a fund balance that is available for appropriation in future periods.

F. Transfers, Revenues, Expenditures and Expenses

1. Interfund Transactions

A description of the four basic types of interfund transactions and the related accounting policies are as follows:

- a. Loans are reported as receivables and payables as appropriate.
- b. Charges for services are reported as revenues for the performing fund and expenditures of the requesting fund.
- c. Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.
- d. All other interfund transfers, such as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, are transfers. Transfers are classified as other financing sources or uses (or transfers for proprietary funds) in the Statement of Revenues, Expenditures (or expenses) and Changes in Fund Balances (or net assets).

For reporting at the government-wide statements level, the City of Houston eliminates direct interfund charges for services and the balances created within the same fund categories (i.e. governmental vs. business-type). This process ensures neither business-type nor governmental funds report direct internal revenue/expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead the fiduciary interfund activity and balances are treated as transactions with an external party. Interfund activity with discretely presented component units are handled in the same manner as fiduciary interfund activity balances. However, the discretely presented balances are reported on a separate line of the Statement of Net Assets. The Internal Service Fund is essentially a clearing account for income, expenses, assets and liabilities of the City's health benefits and long-term disability programs.

2. Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After five years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 90 days of vacation leave (45 days for employees hired after December 31, 1999). Upon termination or retirement, employees are paid for unused vacation leave based on the average rate of pay during the employee's highest paid 60 days of employment. Part-time employees (those working less than 30 hours per week) are not eligible for vacation leave benefits. Firefighters accrue 15 to 22 days of vacation annually, based upon years of service. Police officers participate in a paid time off program that combines sick and vacation leave. Officers enter the program upon completion of their probationary period and then accrue 15 to 40 days annually, based upon years of service.

The majority of full-time civilian employees and firefighters are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The balance of full time civilian employees and firefighters are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement. As noted above, classified police officers are covered by a paid time off plan.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

To the extent that the City's obligation is attributable to employees' services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, vacation and compensatory time benefits are accrued as liabilities (on a government-wide basis) as employees earn the benefits. On a fund financial statement basis for the

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governmental funds, only matured liabilities and liabilities expected to be liquidated with current assets are accrued. Sick leave benefits are accrued as a liability as employees earn the benefits, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement. A compensated absence is liquidated in the fund where the employee's salary was paid at termination, with all compensated absences liquidated in the general fund that are associated with employees' salaries paid from governmental funds.

G. Statement of Cash Flows — Cash and Cash Equivalents

The City considers cash and cash equivalents to be equity in the city's investment pool, consisting of cash on hand, demand deposits and all highly liquid investments which can be deposited or withdrawn without notice or penalty for the proprietary operating funds.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Internal Service Funds

The Internal Service Funds' purpose is to measure the full cost of providing health benefits and long-term disability to City employees and dependants for the purpose of fully recovering that cost through fees or charges – employee payroll deductions and expenditures in departmental personnel budgets. Any profit (loss) during a period is credited (charged) back to participating programs. All assets and liabilities are reported in the governmental activities column of the Statement of Net Assets.

J. New Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement, among other things, established accounting and financial reporting standards for the impairment of capital assets. Under this standard, a capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The City implemented this Statement for the fiscal year ending June 30, 2006. This pronouncement had no impact upon the financial position, results of operations or cash flows of the City for the fiscal year ending June 30, 2006.

In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension Plans." Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities and assets, and other related disclosure requirements. This statement will be implemented on or before the fiscal year ending June 30, 2008 to meet GASB requirements.

The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities, and is reviewing the appropriate policies to address and manage any such liabilities. In preparation for the implementation of GASB 45, the City commissioned a preliminary actuarial study for use as a planning tool in order to assist the City in estimating the actuarial costs of other post-employment benefits and formulating a GASB 45 implementation plan. The preliminary actuarial study indicated that as of June 30, 2006 the City's total actuarial accrued liability (AAL) for benefits earned by the City's municipal employees and classified police officers and firefighters was approximately \$3.2 billion, and the annually required contribution needed to pay the normal costs of the benefits and to effect a level amortization of the AAL over a 30 year period would have been approximately \$326 million.

Options available to any issuer such as the City to offset or reduce the future costs of the OPEB liability that will be reported under GASB 45 include the following:

- Reduction of benefits for active employees and/or retirees;
- Increase of required contributions from active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

In December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Legislation – an amendment of GASB Statement No. 34." Statement No. 46 enhances the usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of the phrase 'legally enforceable' as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. The requirements of this Statement was effective for financial statements for periods beginning after June 15, 2005. This statement was implemented beginning with fiscal year 2006. This pronouncement had no impact upon the financial position, results of operations or cash flows of the City for the fiscal year ending June 30, 2006.

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In July 2004, the GASB issued Statement No. 47, "Accounting for Termination Benefits." Statement No. 47 requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. This pronouncement has no impact upon the financial position, results of operations or cash flows of the City for the fiscal year ending June 30, 2006.

In September 2006, the GASB issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". Statement No. 48 improves financial reporting by establishing consistent measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities. It establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. The requirements for this Statement are effective for financial statements for periods beginning after December 15, 2006. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Note 2: Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental fund statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the government-wide statement of net assets. Also, during the year the City refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent to be escrowed for payment of the old debt as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts will be amortized as an adjustment to interest expense in the government-wide statement of activities over the remaining life of the refunded bonds.

Balances at June 30, 2006, were (in thousands):

Unamortized bond issuance cost	\$ 14,152
Section 108 receivable	21,880
Deferred revenue	124,060
	\$ 160,092
Internal Service Fund total assets	13,369
Internal Service Fund liabilities	(9,491)
Cumulative asset resulting from undercharging the enterprise funds	572
	\$ 4,450
Bonds, notes, and capital lease payable	\$ (2,720,238)
Arbitrage rebate payable	(25)
Accrued interest	(48,034)
Compensated absences not reported at the fund level	(352,961)
Claims and judgments not reported at the fund level	(130,663)
Net pension obligation (liabilities less assets)	(345,542)
	\$ (3,597,463)

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B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statement of net assets, however, issuing debt increases long-term liabilities and does not affect the government-wide statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the government-wide statement of net assets.

Balances at June 30, 2006 were (in thousands):

Debt issued:	
Public Improvement Bonds	\$ 227,540
Certificates of Obligations	60,070
Pension Obligations	80,443
Commercial paper	247,400
Premium/Discount on bonds	16,912
Deferred loss on refunding	(3,620)
Capital appreciation bonds accretion	346
Electricity Note	3,995
	<u>633,086</u>
Repayments:	
Refunded commercial paper	(100,000)
Refunded bonds	(71,250)
Refunded certificates of obligations	(5,090)
Capital lease	(51,253)
Principal payments	(170,833)
	<u>(398,426)</u>
Amortization of:	
Deferred gain	2,260
Premium	(7,319)
Net adjustment	<u>\$ 229,601</u>

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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the government-wide statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment is a combination of the following items (in thousands):

Property taxes earned but not available	\$ 41,630
Ambulance fees earned but not available	5,360
Fines and forfeits earned but not available	1,723
Other (primarily assessments) earned but not available	<u>75,347</u>
Total revenue not reported at fund level	<u><u>\$ 124,060</u></u>
Property taxes for prior periods	\$ (46,794)
Ambulance fees for prior periods	(5,408)
Fines and forfeits for prior periods	(14,991)
Other (primarily assessments) for prior periods	<u>(30,270)</u>
Total revenue for prior period transactions	<u><u>\$ (97,463)</u></u>
Interest on long-term debt	(5,083)
Municipal Employees pension	5,797
Police Officers' pension	(53,666)
Firefighters' pension	(34,589)
Claims and judgments	16,118
Debt issuance costs	4,432
Amortization of debt issuance costs	(1,278)
Compensated absences	(5,587)
Other liabilities	(80)
Decrease in other receivables	<u>(1,515)</u>
Total differences in accrued expenses	<u><u>\$ (75,451)</u></u>

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Note 3: Deposits and Investments

A. Deposits

At June 30, 2006 the carrying amount of the City's deposits was \$21,629,024. The City's bank balance is the sum of three accounts which total \$41,723,459. The three accounts that comprise this balance are described by the following:

Accounts	Ledger	Collected
Conc. 00103333903	\$ 18,383,551	\$ 14,005,907
Sec 108 00103336856	406,507	406,507
JPM MM Account**	22,933,401	22,933,401
subtotal	41,723,459	37,345,815
 Mkt Value Collateral	 \$ 20,158,636	 \$ 20,158,636

**does not include \$17,251 in accrued interest.

The first account is a demand deposit account with JP Morgan Chase bank that as of June 30, 2006 had a ledger balance of \$18,383,551 and a collected balance of \$14,005,907. The difference between the ledger and collected balance of \$4,377,644 represents checks deposited in this bank account for which the collection of available funds had not been obtained as of June 30, 2006. A Depository Pledge Agreement is in effect by which collateral is pledged by JP Morgan Chase to the City to cover collected balances. The collateral is in the form of fixed income securities, are held by a third party, and as of June 30, 2006 had a market value of \$20,158,636. According to the terms of the pledge agreement the City is granted a security interest in the pledged securities. In the event of a default by JP Morgan Chase, the City may sell the pledged securities to satisfy any indebtedness owed to the City by JP Morgan Chase, provided at least 3 business days written notice and opportunity to cure the default is given.

The second account is a demand deposit account with JP Morgan Chase Bank for the City's Housing and Urban Development section 108 account, which had a collected and ledger balance as of June 30, 2006 of \$406,507. This balance was collateralized by the same Depository Pledge Agreement described above.

The third account is a SEC registered money market fund. The balance in the money market fund as of June 30, 2006 was \$22,933,401. As this is not a bank account, collateral is not required to be held to cover the balance. There is no custodial risk associated with this money market fund.

B. Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2006. As of that date, the City had approximately \$1.8 billion in fixed income investments in four separate investment pools, each serving a specific purpose as described below. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

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These funds are managed internally by City personnel. The investments listed below do not include the City's three pension funds, which are described elsewhere in this report.

1. General Investment Pool 960

The General Investment Pool consists of all working capital, construction and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems, as well as the general fund are commingled in this pool in order to gain operational efficiency. Approximately 98.5% of the City's total investable funds are contained in this portfolio.

City of Houston Investments As of June 30, 2006	Credit Quality Ratings(1)(2)	Market Value	WAM (yrs)
U.S. Treasury Notes	n/a	\$ 287,623,336	0.640
Housing & Urban Development Dept ("HUD")	n/a	4,399,554	0.088
Government National Mortgage Association	AAA	3,256,867	8.601
Certificate of Deposits (less than \$100,000 each)	FDIC Insured	481,586	0.666
Commercial Paper	A-1+	58,869,787	0.008
Agency Notes (4)	AAA	999,714,323	1.057
Agency Notes (3) (4)	not rated	103,637,114	1.175
Collateralized Mortgage Obligations (3) (4)	not rated	4,611,771	6.296
Mortgaged Backed Securities (3) (4)	not rated	145,081,990	12.853
Municipal Bonds	AAA	128,783,129	1.619
	AA	16,572,156	1.207
	SP-1+/MIG1	53,276,503	0.960
Total Investments		\$ 1,806,308,116	1.961

(1) Standard and Poor's Rating Services has assigned an AAAf credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAAf signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual S&P ratings, or if an S&P credit rating is not available, the equivalent S&P credit rating is shown to represent the actual Moody's or Fitch credit rating.

(3) These securities are not individually rated by the rating agencies. The issuers of these securities, which includes the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Corporation ("Fannie Mae"), are rated AAA by the rating agencies. Federal Agricultural Mortgage Corporation ("Farmer Mac"), which comprises 4.2% of this portfolio, is not rated by the credit rating agencies as to the individual securities or as an issuer. Farmer Mac is a government sponsored enterprise and is a permitted investment under state law and City investment policy.

(4) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Freddie Mac, Fannie Mae, Farmer Mac, and Federal Farm Credit Bank System.

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar-weighted average stated maturity to 2.5 years maximum. As of June 30, 2006, this investment portfolio dollar-weighted average stated maturity is 1.96 years. Modified duration for the same period is 1.176. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.176 would experience approximately a 1.176% change in market price for every 100 basis point change in yield.

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Credit Risk: The US Treasury Notes and securities issued by HUD and the Government National Mortgage Association are direct obligations of the United States government. The Certificates of Deposit are for amounts less than \$100,000 and guaranteed by the FDIC, an arm of the US Government. The Commercial Paper, which is limited by law to maturities of 270 days or less, has the highest short-term rating of A-1+. The Agency Notes, Collateralized Mortgage Obligations and Mortgage Backed Securities are issued by government sponsored enterprises but are not direct obligations of the US Government. The Municipal Securities that were issued as long-term securities are rated AAA or AA. The Municipal Securities that were considered short-term securities at time of issue, and thus were not given a long-term credit rating, have the highest short-term credit rating of MIG-1.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006 none of the City's investments in the General Investment Pool 960 were subject to custodial credit risk.

2. Tax Exempt Pool 971

The Tax Exempt Pool consists of those funds which are subject to yield restrictions and arbitrage regulation under the 1986 Tax Reform Act.

City of Houston Investments As of June 30, 2006	Credit Quality Ratings	Market Value	WAM
Fidelity Tax-Exempt Money Market Mutual Fund	SEC 2a-7 fund	2,439,565	14-Days
CLA 07-01-27 Variable Rate Tax-exempt Muni	Aa2	3,004,750	21-Days
Total Investments		<u>\$ 5,444,315</u>	<u>18-Days</u>

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio dollar-weighted average stated maturity to 1.0 years maximum. As of June 30, 2006, this investment portfolio's dollar-weighted average stated maturity is 18 days. Modified duration for the same period is 0.051 year.

Credit Risk. Due to the nature of municipal bonds (more risk, less liquidity), the City investment policy limit its investments in the Tax-Exempt Pool with high quality, short maturity securities (generally less than 1 year) and a minimum rating of A, if the yield is reasonably higher than that of tax-exempt money market mutual funds. Otherwise, funds in this pool will be invested in one or more tax-exempt money market mutual funds that are SEC registered and regulated under rule 2a-7. In sum, rule 2a-7 requires that the fund have a weighted average maturity of less than 90 days to maturity, individual securities cannot be more than 397 days to maturity and must have a rating by nationally recognized rating agencies in one of the two highest short-term rating categories.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006 none of the City's investments in the Tax Exempt Pool 971 were subject to custodial credit risk.

3. Housing Department Section 108 Pool 974

The Housing Department Pool was created to comply with rules of the US Department of Housing and Urban Development ("HUD"), which requires that funds provided by HUD must be held in a separate custodial account for HUD's benefit. The primary goal of this fund is to meet the cash and investment needs of the City's Housing and Community Development HUD program cash flows.

City of Houston Investments As of June 30, 2006	Credit Quality Ratings	Market Value	WAM
U.S. Treasury Bills	AAA	499,419	13-Days

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar-weighted average stated maturity to 6.0 months maximum. As of June 30, 2006, this investment portfolio's dollar-weighted average stated maturity is 13 days. Modified duration for the same period is 0.036 year.

Credit Risk. Pool 974 only consists of U.S. Treasury Bills with maturities less than 6 months. HUD requires that investment of their funds must be in direct obligations of the United States Government.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

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Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006 none of the City's investments in the Housing Dept. 974 Pool were subject to custodial credit risk.

4. Convention Center and Hotel Reserve Fund Pool 979

The Convention Center and Hotel Reserve Fund Pool consists of proceeds from the 2001 Series A, B and C Hotel Occupancy Tax and Special Revenue Bond issues designated as reserve funds.

City of Houston	Credit Quality	Market	WAM
Investments As of June 30, 2006	Ratings	Value	(yrs)
MBIA Flex Repo	not rated	22,224,750	5.175

Risk Disclosures:

Interest Rate Risk. This is a fixed rate investment provided by MBIA Inc. The market value of this investment is held at a constant value because it is collateralized for 105% of its par value (see credit risk below).

Credit Risk. This investment is collateralized with fixed income government securities that are held by a third party. The market value of that collateral is maintained at least 105% of the par value of this investment, and is monitored monthly.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006, the City's investments that were subject to custodial credit risk were the collateral securities for the MBIA Flex Repo, held by an independent third party custodian (Wells Fargo) with whom the City has a current custodian agreement.

5. Miscellaneous Money Market Accounts

The City maintains several separate money market account balances for various purposes described below:

City of Houston	Credit Quality	Market	WAM
Investments As of June 30, 2006	Ratings	Value	(yrs)
JP Morgan US Government Money Market Fund: Airport System Special Facilities Revenue Bonds Series 1997A	AAA	\$ 6,840,476	< 90 days
JP Morgan US Government Money Market Fund: Balances held for auction rate debt service.	AAA	2,446,687	< 90 days
First American Treasury Obligation Money Market Fund: Balances held for commercial paper debt service.	AAA	622,430	< 90 days
Total Miscellaneous Money Market Funds		<u>\$ 9,909,593</u>	

Risk Disclosures:

Interest Rate Risk. These money market funds maintain an average maturity of less than 90 days and seek to maintain a stable net asset value of \$1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings Standard & Poor's and Moody's of AAAM and Aaa respectively.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006 none of the City's investments in the previous noted money market funds were subject to custodial credit risk.

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6. Houston Foundation

The Houston Foundation consists of two trusts, of which the Hill Trust is reported on this schedule. The Hill trust was established by will in the early 1900's as a general purpose charity trust. The foundation's board usually designates that the money be used for a specific purpose, such as the purchase of medical supplies or to fund Meals on Wheels, rather than for administrative or staff salaries. The City's Finance and Administration staff provides administrative support to the foundation and its board.

City of Houston Investments As of June 30, 2006	Credit Quality Ratings	Market Value	WAM (yrs)
Cash and Equivalents	not rated	\$ 101,716	n/a
Fixed Income	not rated	1,118,832	4.57
Equities	n/a	1,471,994	n/a
Total Assets		<u>\$ 2,692,542</u>	

Risk Disclosures:

Interest Rate Risk. The fixed income portion of this portfolio is invested in three mutual funds. 7% of which is invested in a short-term bond fund with a modified duration of 1.72. About 74% is invested in an intermediate bond fund with a modified duration of about 4.77, and 19% of which is invested in a total return bond fund with a modified duration of 4.81.

Credit Risk. The allocation of assets among various asset classes are set by the board. The mutual funds containing the fixed income investments are not rated, but the average credit quality of the specific securities held by the mutual funds is AA2. The equity assets are split among five mutual funds with their respective objectives as follows: International Value, Growth, Midcap Index, Smallcap Index, and Domestic Value. The fund's managers consider broad diversification as a measure of safety and balance in the investment of funds.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2006 all of the foundation's holdings in the above noted mutual funds were subject to custodial credit risk.

7. Investments – Houston Area Water Corporation

As of June 30, 2006, the Corporation had the following investments:

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair value</u>
JP Morgan Commercial Checking	-	\$ 210,749
JP Morgan U.S. Government money Market Fund	42 days	1,838,234
JP Morgan Prime Money Market Funds	43 days	3,031,437
Pool managed by the City of Houston	1.3 yrs.	<u>401,253</u>
		<u>\$ 5,481,673</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The corporation does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$110,740 was exposed to custodial risk as follows:

Uninsured and uncollateralized	<u>\$ 110,740</u>
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Interest Rate risk: The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The corporation has no investment policy that would further limit its investment choices. As of June 30, 2006, Standard & Poor's investment Services has assigned its AA+ credit rating and S1 volatility rating to the General Pool managed by the City. The AA+ credit quality rating is the highest rating available from Standard & Poor's and reflects the extremely strong protection that the Pool's portfolio investments provide against losses from credit defaults or credit deterioration. The S1 volatility rating recognizes the Pool's sensitivity to changing market conditions as a result of its low market risk profile and conservative investment policies. The corporation's investment in the U.S. Government Money Market Fund was rated AA+ by S&P Rating and Aaa by Moody's Rating. The corporation's investment in the Prime Money Market Fund was rated AA+ by S&P Rating and Aaa by Moody's Rating.

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8. Investments – Municipal Employees Pension System (the “System”)

Portions of the System’s investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in commingled funds, limited partnerships, real estate trusts, and loans and mortgages are investments that are evidenced by contracts rather than securities.

The fair values of the System’s investments at June 30, 2006 are presented by type, as follows:

United States government securities	\$	57,378,912
Corporate bonds		75,568,208
Capital stocks		509,384,428
Commingled funds		548,133,295
Limited partnerships, real estate trust, and loans and mortgages		484,670,457
Short-term investment funds (cost)		<u>66,298,270</u>
	\$	<u>1,741,433,570</u>

The System’s Board (Board), in accordance with the power and authority conferred under the Texas Statutes, employed State Street Bank and Trust Company (Custodian) as custodian of the assets of the System, and in said capacity, the Custodian shall be a fiduciary of the System’s assets with respect to its discretionary duties including safekeeping the System’s assets. The Custodian shall establish and maintain a custodial account to hold, or direct its agents to hold, for the account of the System all assets that the Board shall from time to time deposit with the Custodian. All right, title and interest in and to the System’s assets shall at all times be vested in the System’s Board.

In holding all system assets, the Custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the Custodian shall hold, manage and administer the System’s assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the System.

The Board shall manage the investment program of the System in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth the factors involved in the management of investment assets for the System and is made part of every investment management agreement.

Custodial credit risk. For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty’s trust department or agent but not in the System’s name.

At June 30, 2006, the System’s investments that were not subject to custodial credit risk were the investments in U.S. government securities and corporate bonds as they are registered in the name of the System and held in possession of the Custodian.

Concentration of credit risk. The allocation of assets among various asset classes are set by the Board. For major asset classes (e.g., U.S. equity, international equity, fixed income, real assets, and alternative investments), the System will further diversify by employing managers with demonstrated skills in complementary areas of expertise.

The managers retained will utilize varied investment approaches, but, when combined will exhibit characteristics that are similar, but not identical, to the asset class proxy utilized in the strategic asset allocation plan. The Investment Policy of the System provides that no investment manager shall have more than 15% (at market value) of the System’s assets in one investment style offered by the firm, with the exception of passive management.

Representative guidelines by type of investment are as follows:

U.S. equity managers

1. A manager's portfolio shall contain a minimum of twenty-five issues.
2. No more than 5% of the manager's portfolio at market shall be invested in American Depository Receipts.
3. No individual holding in a manager's portfolio may constitute more than 5% of the outstanding shares of an issuer.
4. No individual holding may constitute more than 5% of a manager's portfolio at cost or 10% at market.
5. Short sales, purchases on margin, non-negotiable or otherwise restricted securities are prohibited, other than where expressly permitted.
6. While there are no restrictions on cash, a manager must notify the System if the cash position exceeds 10%.

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International equity managers

1. Not more than 5% at cost and 10% at market value of a manager's portfolio shall be invested in the securities of any one issuer.
2. Not more than 30% of the assets of a manager's portfolio (at market value) shall be invested in any one country with the exception of Japan.
3. While there are no restrictions on cash, a manager must notify the System if the cash position exceeds 10%.
4. Currency forwards and futures will be limited as follows:
 - a. Limits on net forward and future sales of currencies will be addressed in each manager's respective Guidelines and Objectives,
 - b. Forward and future exchange contracts of any currencies, other than Yen, Sterling and Euro shall be limited to the manager's underlying equity position in the local market,
 - c. Foreign exchange contracts with a maturity exceeding 12 months are prohibited, and
 - d. Currency options may be entered into in lieu of or in conjunction with forward sales of currencies. The same effective limitations specified in (a) through (c) above will apply to currency options.

Fixed income managers

1. No more than 10% of a manager's portfolio at market shall be invested in the securities of any single issuer, with the exception of the U.S. government and its agencies.
2. No individual holding in a manager's portfolio shall constitute more than 10% of the market value of an issue.

Global opportunistic fixed income/high yield managers

3. No more than 5% at cost and 10% at market value of a manager's portfolio shall be invested in the securities of any single issuer, with the exception of the U.S. government and its agencies.

There is no security issued by a single issuer that is being held with market value over 5% of the System's plan net assets as of June 30, 2006 and June 30, 2005.

Interest rate risk. The System invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a 100-basis point change in interest rates. The duration of the System's debt securities are managed by the active managers.

At June 30, 2006, the following table shows the System's investments by type, amount and the effective duration rate calculated using the software Wilshire Axiom.

	<u>Effective Duration</u>	<u>Domestic</u>	<u>International</u>	<u>Fair Value</u>
Collateralized mortgage obligations	4.47	\$ 6,972,535		6,972,535
Convertible bonds	3.92	7,775,221	659,750	8,434,971
Corporate bonds	6.93	43,968,363		43,968,363
Corporate bonds (International)	6.49		7,128,537	7,128,537
GNMA/FNMA/FHLMC	4.48	28,435,087		28,435,087
Government issues (United States)	4.64	22,757,628		22,757,628
Government issues (International)	17.10		6,259,983	6,259,983
Misc. receivable (auto/credit card)	0.50	1,004,797		1,004,797
Options-futures		9,919		9,919
Other asset backed	3.59	<u>7,561,716</u>	<u>413,584</u>	<u>7,975,300</u>
	5.77	<u>\$ 118,485,266</u>	<u>14,461,854</u>	<u>132,947,120</u>

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Credit risk. The quality ratings of investments in fixed income securities are set forth in the Investment Policy as follows:

1. All issues purchased must be of investment grade quality Baa (Moody's) or BBB (S&P) unless expressly authorized by the Board, in which case a minimum B rating shall apply, with a maximum limit of non-investment grade credits of 20% at market.
2. For global opportunistic fixed income/high yield securities, more than 50% of a manager's portfolio at market shall be invested in non-investment grade fixed income securities, i.e. those with ratings of BA1 (Moody's), BB+ (Standard & Poor's), or lower, or unrated bonds, including but not limited to corporate bonds, convertible bonds, and preferred stocks.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2006 are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Holdings</u>
AAA	\$ 10,953,789	8.25 %
AA	168,175	0.13 %
AA+	1,181,175	0.89 %
AA-	86,546	0.07 %
A	2,651,316	1.99 %
A-	1,640,274	1.23 %
A+	1,275,286	0.96 %
BBB	4,521,472	3.40 %
BBB-	3,486,107	2.62 %
BBB+	3,538,950	2.66 %
BB	7,945,772	5.98 %
BB+	3,049,331	2.29 %
BB-	2,661,395	2.00 %
B	12,407,513	9.33 %
B+	6,483,468	4.88 %
B-	5,396,333	4.06 %
Below B-	3,992,585	3.00 %
Not rated	<u>10,304,999</u>	<u>7.75 %</u>
Total credit risk debt securities	81,744,486	61.49 %
U.S. government fixed income securities*	<u>51,202,634</u>	<u>38.51 %</u>
Total fixed income securities	\$ <u>132,947,120</u>	<u>100.00 %</u>

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

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Foreign currency risk. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System's Investment Policy.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund, establishes investments in international equities. The System has an indirect exposure to foreign currency fluctuation as of June 30, 2006 as follows:

	<u>Fair Value</u>	<u>Percentage of Holdings</u>
Australian Dollar	\$ 2,219,197	1.1 %
Canadian Dollar	4,173,949	2.1 %
Euro Currency	86,523,675	42.6 %
Hong Kong Dollar	1,560,602	0.8 %
Hungarian Forint	458,526	0.2 %
Indonesian Rupiah	1,131,502	0.6 %
Japanese Yen	36,668,832	18.1 %
Mexican Peso	1,685,071	0.8 %
New Zealand Dollar	997,127	0.5 %
Norwegian Krone	5,926,395	2.9 %
Pound Sterling	27,060,066	13.4 %
Singapore Dollar	5,231,372	2.6 %
South Korean Won	3,468,460	1.7 %
Swedish Krona	4,268,573	2.1 %
Swiss Franc	19,443,400	9.6 %
Taiwan Dollar	<u>1,816,147</u>	<u>0.9 %</u>
Total securities subject to foreign currency risk	\$ <u>202,632,894</u>	<u>100 %</u>

9. Investments – Houston Firefighters' Relief and Retirement (HFRRF) Fund

Statutes of the State of Texas authorize the HFRRF to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the HFRRF Board. The investment policy of the HFRRF Board does not restrict the types of investments authorized to be made on behalf of the HFRRF; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the HFRRF given prevailing capital market conditions. While the HFRRF Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

The HFRRF Board has employed Mellon Trust (HFRRF Custodian) as HFRRF Custodian of the assets of the HFRRF, and in said capacity, the HFRRF Custodian shall be a fiduciary of the HFRRF's assets with respect to its discretionary duties including safekeeping the HFRRF's assets. The HFRRF Custodian shall establish and maintain a custodial account to hold, or direct its agents to hold, for the account of the HFRRF all assets that the HFRRF Board shall from time to time deposit with the HFRRF Custodian. All right, title and interest in and to the HFRRF's assets shall at all times be vested with the HFRRF's Board.

In holding all HFRRF assets, the HFRRF Custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the HFRRF Custodian shall hold, manage and administer the HFRRF's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the HFRRF Fund.

The HFRRF Board shall manage the investment program of the HFRRF in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The HFRRF Board has adopted an Investment Policies and Procedures (Investment Policy) to set forth the factors involved in the management of investment assets for the HFRRF. The HFRRF Board has established an Investment Committee to act on all matters related to investments.

The fair values of the HFRRF's investments as of June 30, 2006 by type are as follows:

Short-term investment funds	\$ 136,945,184
Fixed Income	839,207,571
Common equity	1,157,323,068
Preferred equity	7,952,223
Alternative investments - partnerships	290,559,272
Real Estate	<u>122,941,254</u>
Total investments	\$ <u>2,554,928,572</u>

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Portions of the HFRRF's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in partnerships and real estate are investments that are evidenced by contracts rather than securities.

Custodial credit risk. For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the HFRRF will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the HFRRF, and are held by either the counterparty or the counterparty's trust department or agent but not in the HFRRF's name. At June 30, 2006 and 2005, the HFRRF's security investments that were not subject to custodial credit risk were the investments that were not subject to custodial credit risk were the investments not registered on an exchange.

Concentration of credit risk. The allocation of assets among various asset classes are set by the HFRRF Board with the objective of optimizing the investment return of the HFRRF within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, and real estate), the HFRRF will further diversify by employing investment managers who implement the strategies selected by the Investment Committee.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines will be developed cooperatively by the HFRRF's investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Investment Committee, Executive Director and the investment manager.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:
 - a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.
 - b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Investment Committee.
 - c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Investment Committee.
 - d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Investment Committee.
 - e. Managers shall maintain cash levels consistent with their style as presented to the Investment Committee at the time of selection. Any deviation shall be allowed only after notifying the Chief Investment Officer and Executive Director and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.
3. The Investment Committee with the assistance from the HFRRF staff shall monitor each investment manager's performance and adherence to style, strategy, and manager specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing an investment manager if they deem it appropriate at any time.

Alternative and real estate investments

- a. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Chair of the Investment Committee and the manager execute this document.
- b. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:

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1. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.
 2. The Chair of the Investment Committee may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Investment Committee. Otherwise, such changes are to be approved by the Investment Committee. The Investment Committee will be notified on a quarterly basis of all executed amendments.
- c. The Investment Committee with assistance from the HFRRF staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Investment Committee with assistance from the HFRRF staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

As of June 30, 2006, the HFRRF Fund's investments of \$139,171,588 in an individual U.S. Treasury Bond exceeded 5% of HFRRF net assets. As of June 30, 2005, the Fund's investment of \$119,666,229 in an individual U.S. Treasury Bond exceeded 5% of Fund net assets.

Interest rate risk. The Fund invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the HFRRF's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment come due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The HFRRF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

At June 30, 2006, the following table shows the HFRRF's investments by type, with weighted average maturity and fair value:

	Weighted Average <u>Maturity</u>	<u>Fair Value</u>
U.S. Government issues	13.51	\$ 337,423,605
U.S. Fixed Income Funds	0.00	993,867
U.S. Private Placements	15.05	33,516,045
U.S. Taxable Muni Bond	27.94	1,226,335
Non-U.S. Government Issues	18.81	42,950,628
Non-U.S. Corporate	5.46	43,208,814
Non-U.S. FHLM/FNMA	2.15	6,910,894
Corporate debt	12.24	315,362,619
Asset backed securities	3.53	40,397,658
General obligations	17.11	11,847,376
Zero Coupons	17.43	432,245
FHLMC/FNMA	25.44	385,638
Revenue bonds	18.71	<u>4,551,847</u>
Total fixed income securities	12.14	\$ <u>839,207,571</u>

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The HFRRF does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract.

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The HFRRF's exposure to investment credit risk in fixed income securities as of June 30, 2006 is as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Holdings</u>
Aaa	\$ 138,590,738	5.42 %
Aa1	22,044,230	0.86 %
Aa2	28,519,248	1.12 %
Aa3	11,517,185	0.45 %
A1	11,804,634	0.46 %
A2	32,175,216	1.26 %
A3	19,568,364	0.77 %
Baa1	21,949,061	0.86 %
Baa2	31,294,415	1.22 %
Baa3	30,240,100	1.18 %
Ba1	7,347,294	0.29 %
Ba2	21,015,484	0.82 %
Ba3	15,773,904	0.62 %
B1	21,445,059	0.84 %
B2	34,616,119	1.35 %
B3	12,927,330	0.51 %
Caa1	6,554,939	0.26 %
Caa2	7,292,001	0.29 %
Caa3	4,344,175	0.17 %
Ca	952,725	0.04 %
Rating not available	<u>21,811,745</u>	<u>0.85 %</u>
Total credit risk debt securities*	\$ <u>501,783,966</u>	<u>19.64 %</u>

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, have not been included in this disclosure.

Foreign currency risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the HFRRF's Investment Policy. The HFRRF's exposure to foreign currency fluctuation as of June 30, 2006 is as follows:

	<u>Fair Value</u>	<u>Percentage of Holdings</u>
EURO Currency	\$ 195,628,022	7.66 %
British Pound Sterling	94,017,256	3.68 %
Japanese Yen	76,273,139	2.99 %
Canadian Dollar	46,048,682	1.80 %
Swiss Franc	25,481,349	1.00 %
South Korean Won	21,903,999	0.86 %
Hong Kong Dollar	21,437,362	0.84 %
Norwegian Krone	18,846,399	0.74 %
Australian Dollar	18,518,905	0.73 %
Brazil Real	17,483,688	0.68 %
Singapore Dollar	16,617,774	0.65 %
Mexican New Peso	14,068,405	0.55 %
New Taiwan Dollar	12,819,467	0.50 %
Swedish Krona	11,102,044	0.43 %
South African Comm Rand	9,809,621	0.38 %
Thailand Baht	9,503,644	0.37 %
New Zealand Dollar	8,752,593	0.34 %
Indonesian Rupian	4,904,430	0.19 %
Czech Koruna	1,917,996	0.08 %
Argentina Peso	1,049,973	0.04 %
New Turkish Lira	1,010,691	0.04 %
Malaysian Ringgit	225,745	0.01 %
Hungarian Forint	<u>2,159</u>	<u>0.00 %</u>
Total securities subject to foreign currency risk	\$ <u>627,423,343</u>	<u>24.56 %</u>

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10. Investments – Houston Police Officers’ Pension (HPOP)

Summary of Significant Accounting Policies

Investments. Statutes of the State of Texas authorize the HPOP System to invest surplus funds in a manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Dividend income is recorded on the ex-dividend date. Income from other investments is recorded when earned. Gains and losses on sales of securities are recognized on the trade date. The cost of investments sold is determined using the first-in, first-out cost flow method. Short-term investments include funds held in the Northern Trust Short Term Investment Fund (STIF) and commercial paper with maturities not exceeding one year. Fixed income investments include government securities such as Treasury securities, Federally sponsored agency issued discount notes, bonds, agency pass-through securities and collateralized mortgage obligations; US corporate bonds such as term bonds and asset backed securities; and foreign securities such as dollar denominated and non-dollar denominated issues of non-US governments and private corporations. Call options on fixed income securities give the holder the right but not the obligation to purchase US Treasury securities during the term of the option contract. The holder pays a premium for this right, which is carried as an asset of the System, subject to daily mark-to-market adjustments, during the contract term. The issuer of the option has an obligation to the holder to settle the option position in cash at the fair value of the underlying security in exchange for the price specified by the option, until the contract is exercised or expires. Equity securities consist of individual shares of equity securities plus units of commingled stock funds of both US and foreign entities. Alternative investments consist of investments in hedge funds commodities, private equity and a commingled structured beta fund.

Administrative Costs. All administrative costs of the System are paid from the System’s assets.

Federal Income Tax. A favorable determination that the system is qualified and exempt from Federal income taxes was received May 26, 2006. The Board believes that the System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates. The preparation of the System’s financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make significant estimates and assumptions that affect the reported amounts and net plan assets at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in the system’s net assets during the reporting period and, when applicable, disclosures of the contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reclassification. Amounts previously reported as a component of interest income for the year ended June 30, 2005 have been reclassified as net appreciation in fair value of investments in the amount of \$1,649 thousand. This reclassification had no effect on net plan assets held in trust for pension benefits.

The System's investments have been categorized to address deposit and investment risks related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the HPOP System’s deposits may not be returned to them. The HPOP System considers only demand deposits as cash. As of June 30, 2006 and 2005, the HPOP System had a balance of \$158 thousand and \$131 thousand respectively, on deposit at a financial institution. The Federal Depository Insurance Corporation covered cash on deposit up to \$100 thousand at this financial institution. As of June 30, 2006, \$58 thousand of the System’s bank balance of \$158 thousand was exposed to custodial credit risk as it was uninsured and uncollateralized. In addition, at June 30, 2006, the System has approximately \$270 thousand on deposit with other financial institutions, which is subject to custodial credit risk, as it is not covered by depository insurance and is uncollateralized.

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Credit Risk. Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2006, the System's fixed income assets that are not government guaranteed represented 68.2% of the System's fixed income portfolio. The below tables summarize the System's fixed income portfolio exposure levels and credit qualities.

**Average Credit Quality and Exposure Levels of Non-U.S. Government
Guaranteed Securities (\$000's)**

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Credit Quality
Corporate Bonds	\$ 187,798	21.9%	B
International			
Government Bonds	53,405	6.2%	AA
Mutual Bond Funds	343,446	40.1%	Not Rated
Total	\$ 584,649	68.2%	

**Ratings Dispersion Detail
(\$000's)**

Credit Rating Level	Corporate Bonds	International Government Bonds	Mutual Bond Funds
AAA	\$ -	\$ 18,704	\$ -
AA	-	32,690	-
A	630	2,011	-
BBB	3,224	-	-
BB	43,849	-	-
B	105,886	-	-
CCC	19,457	-	-
C	377	-	-
SD	11,598	-	-
Not Rated	2,777	-	343,446
Total	\$ 187,798	\$ 53,405	\$ 343,446

The HPOP System's investment policy allows Investment managers full discretion in adopting investment strategies to deal with these risks. Unless otherwise provided in the individual investment manager agreement, the average quality rating of each individual fixed income portfolio on a weighted value basis shall be A-rated or higher, and no issue should have a rating below investment grade (Baa or higher). Certain managers, such as high yield managers, may be exempted from these requirements as provided for in their contracts.

Credit risk for derivative instruments held by the HPOP System results from counterparty risk, essentially that the counterparty will be unable to fulfill its obligations, assumed by the HPOP System. Information regarding the HPOP System's credit risk related to derivatives is found under the derivatives disclosures.

Policies regarding credit risk pertaining to credit risk associated with the HPOP System's securities lending program are found under the securities lending disclosures.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the HPOP System's investment in a single issue. The HPOP System's operational guidelines for each specific portfolio limits investments in any one single domestic equity issue to 15% of each portfolio at market value and for any one single international equity issue to 5% of the HPOP System's investments. For fixed income investments, the HPOP System's policy limits, by each specific portfolio, investment in any one single fixed income security to 10% of each portfolio at market value. As of June 30, 2006, the HPOP System did not have any investments in any one organization which represented greater than 5% of plan net assets.

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Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the HPOP System's financial instruments. This risk is managed within the portfolio using the modified duration methodology. It is widely used in the management of fixed income portfolios and estimates the sensitivity of a bond's price to interest rate changes. All of the HPOP System's fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken. The reporting of modified duration found in the tables below quantifies the interest rate risk of the HPOP System's fixed income investments. Interest rate risks associated with derivative instruments are found in the derivatives disclosures of these notes.

Modified Duration of Fixed Income Assets by Security Type
(\$000's)

Fixed Income Security Type	Market Value June 30, 2006	% of All Fixed Income Assets	Weighted Average Modified Duration (years)
US Treasuries	\$ 271,108	31.7%	8.1
Corporate Bonds	187,798	22.0%	4.9
International			
Government Bonds	53,405	6.2%	7.0
Mutual Bond Funds	343,446	40.1%	6.8
Total	<u>\$ 855,757</u>	<u>100.0%</u>	5.3

Modified Duration Analysis - Corporate and International Government Bonds

Corporate Bonds	Market Value June 30, 2006	Average Modified Duration	Contribution Modified Duration
Less than 1 year to maturity	\$ 4,167	0.7	0.0
1 to 10 years maturities	165,883	4.6	4.3
10 to 20 years maturities	9,645	8.4	0.3
Greater than 20 years maturities	8,103	11.9	0.3
Total	<u>\$ 187,798</u>		<u>4.9</u>

International Government Bonds	Market Value June 30, 2006	Average Modified Duration	Contribution Modified Duration
Less than 1 year to maturity	\$ -	0.0	0.0
1 to 10 years maturities	36,524	4.3	2.9
10 to 20 years maturities	6,018	10.8	1.2
Greater than 20 years maturities	10,863	14.3	2.9
Total	<u>\$ 53,405</u>		<u>7.0</u>

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The books and records of the HPOP System are maintained in US dollars. Foreign currencies and non-dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation in fair value of investments. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the HPOP System and the amount actually received.

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The HPOP System's exposure to foreign currency risk in U.S. dollars as of June 30, 2006, is shown in the table below:

Foreign Currency Exposure by Asset Class
(\$000's)

Currency	Short Term Investments	Equities	Fixed Income	Alternative Investments	Options on Foreign Currencies	Total
Australian dollar	\$ 216	\$ 938				\$ 1,154
British pound sterling	(11)	82,824	\$ 3,529		(3,557)	82,785
Canadian dollar	(17)	7,584	1,198		(1,199)	7,566
Chinese yuan renminbi					-	-
Danish krone			822		(837)	(15)
Euro	25	169,153	26,909	4,373	(26,888)	173,572
Hong Kong dollar		6,065				6,065
Indonesian rupiah						
Japanese yen	16	77,403	21,161		(21,413)	77,167
New Zealand dollar		2,026				2,026
Norwegian krone		4,113			(11)	4,102
Singapore dollar		8,518				8,518
South Korean won		11,224				11,224
Swedish krona			355		(349)	6
Swiss franc	183	26,920				27,103
	<u>\$ 412</u>	<u>\$ 396,768</u>	<u>\$ 53,974</u>	<u>\$ 4,373</u>	<u>\$ (54,254)</u>	<u>\$ 401,273</u>

Securities Lending Program – The Board of Trustees' policies permit the System to lend securities (domestic and international equities and fixed income) to securities firms on a temporary basis through its custodian bank. The System receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. Cash, letters of credit or various government securities having market values equal to or exceeding 102 and 105 percent of the value of the loaned securities for domestic and international securities, respectively, collateralize all security loan agreements. Whenever mark value of the securities on loan changes, the borrower must adjust the collateral accordingly. At June 30, 2006, the system had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System, as shown in the table on the next page.

Securities Lending Program –

	<u>Fair Value (\$000's)</u>
<i>June 30, 2006</i>	
Investments held by System's agent in System's name:	
Short-term investments	\$ 95,702
Fixed income	544,921
Equities	1,142,739
Alternative investments	624,204
Foreign currency contracts	2,288
Securities lending collateral investment pool	<u>574,793</u>
	<u>\$ 2,984,647</u>
Investments held by brokers under Securities loans with cash collateral:	
Fixed income	\$ 310,836
Equities	<u>167,158</u>
	<u>\$ 477,994</u>

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The HPOP System's bank pools all collateral received from securities lending transactions and invests any cash collateral. The HPOP System holds an undivided share of the collateral provided by the borrowers of the securities. At June 30, 2006 the weighted-average maturity of the collateral pool was 38 days. The relationship between the maturities of the collateral pool and the HPOP System's loans has not been determined. Cash collateral invested in the custodian bank collateral pool at June 30, 2006 and 2005, was \$486,619 thousand and \$256,170 thousand, respectively. The balance of the collateral at June 30, 2006 and 2005 of \$88,174 thousand and \$32,096 thousand, respectively, consists of treasury securities and letters of credit.

The HPOP System cannot sell or pledge the collateral unless the borrower fails to return the securities borrowed. The market value of securities on loan at June 30, 2006 and 2005 was \$562,760 thousand, respectively.

Derivatives – The HPOP System's investment managers may invest in derivatives if permitted by the guidelines established by the HPOP System's Board of Trustees. The HPOP System's staff monitors guidelines and compliance. From time to time the HPOP System's investment managers will invest in foreign currency contracts, options, swaps, reverse repurchase agreements, index linked bonds, collateralized mortgage obligations and mortgage-backed securities. No derivatives are purchased with borrowed funds.

These derivative instruments are subject to the following risks:

- *Credit Risk* – The risk that the counterparty will not fulfill its obligations. The HPOP System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.
- *Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair values of the HPOP System's financial instruments or cash flows.
- *Basis Risk* – The risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes.
- *Termination Risk* – The risk that a derivative's unscheduled end will adversely affect an investment manager's strategy.
- *Rollover Risk* – The risk that a derivative associated with the HPOP System's fixed income investments does not extend to the maturity of those investments.

Foreign currency contracts are used to hedge against the currency risk in the HPOP System's investments in foreign equity and fixed income securities and also as part of a total return strategy that seeks absolute returns from relative changes in the prices of foreign currencies. The other derivatives are used to enhance yields and provide incremental income.

The HPOP System is invested in a total return strategy utilizing various foreign currency derivative instruments. The strategy is managed by a third party investment management firm in an account managed by a prime broker. At June 30, 2006, the HPOP System has approximately \$5,513 thousand on deposit with the prime broker and this amount changes monthly as the HPOP System and the prime broker swap cash flows each month equal to the profit or loss in the account. This amount is subject to custodial credit risk, as it is not covered by depository insurance and is uncollateralized. At June 30, 2006, the HPOP System held units in this commingled fund that represent approximately \$52,400 thousand in foreign currency exposure pursuant to this strategy. As the HPOP System holds units in this fund, the underlying foreign currency contracts are not reflected in the accompanying schedule of derivative instruments.

Futures on investments are used to take advantage of mis-pricing opportunities. When a position is taken in a futures contract, a margin is posted and the contract is subject to daily mark-to-market adjustments. To liquidate the contract prior to expiration an offsetting position in the same contract must be taken. At expiration the holder of the futures contract accepts delivery of the underlying asset at the agreed-upon price.

The average futures balance outstanding, not including foreign currency contracts, during the fiscal year ending June 30, 2006 and 2005 was (\$263,618) thousand and \$304,057 thousand, respectively. Futures outstanding, not including foreign currency contracts at June 30, 2006 and 2005 were \$35,032 thousand and \$809,011 thousand, respectively.

The contract or notional amounts of these instruments reflect the extent of the HPOP System's involvement in each class of financial instrument as of June 30, 2006 as follows (\$000's):

Contracts	Description	Notional Value	Exposure
8	Futures on Treasury Bills and Equivalents	\$ 5,863	\$ –
9	Fixed Income Futures	26,881	–
220	Long foreign currency contracts	326,506	159
220	Short foreign currency contracts	(324,218)	2,129
		\$ 35,032	\$ 2,288

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Alternative Investments. As of June 30, 2006 the HPOP System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the following chart (000's).

Investment Type	Market Value of the HPOP System's Interest at June 30, 2006	
<i>Private Equity</i>		
Leveraged Buyouts	\$	116,741
Special Situations		93,792
Venture Capital		73,285
<i>Other Alternatives</i>		
Hedge Funds		74,777
Real Estate		1,260
Structured Beta		264,349
	\$	624,204

This chart does not include \$5,513 thousand on deposit as margin for the system's exposure to a total return foreign currency strategy as discussed above or a \$6,000 thousand allocation to a commodities strategy that was funded on June 30, 2006 but not effective until the next succeeding business day. This commodities strategy will be funded at a rate of \$6,000 thousand per month until such strategy represents 2.5 percent of System assets.

Note 4: Allowance for Doubtful Accounts

The following were the allowances for doubtful accounts receivable by fund as of June 30, 2006 (000's):

Fund	Amount
General	
Uncollectible general property taxes	\$ 47,606
Ambulance charges	227,459
Fines and forfeits	23,694
Demolition liens	37,673
Others	2,802
Grant revenue	50,379
Airport System	2,292
Convention and Entertainment Facilities	
Accounts receivable	666
Hotel occupancy tax	90
Combined Utility System	87,162
	\$ 479,823

Note 5: Property Tax

The City's annual ad valorem property tax is required to be levied by October 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due on January 31 of the year following the year of the levy. A tax lien attaches to all property on January 1 of each year to secure the payment of all taxes, penalties and interest that is ultimately imposed on the property. The tax rate established by the City Council for the 2005 tax year was \$0.6475 per \$100 of assessed value with \$0.46359 for operations and \$0.18391 for debt service.

The City Charter limits the property tax rate to \$0.50 per \$100 of assessed valuation excluding taxes levied for "debt service," as that term is defined in Section 1 of Article III of the City Charter. The Texas Property Tax Code ("Code"), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for countywide appraisal districts.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 6: Capital Assets

A. Governmental activities of the Primary Government

A summary of changes in capital assets for the year ended June 30, 2006 follows (in thousands):

	Balance July 1, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Primary Government					
Capital assets not being depreciated:					
Land	\$ 358,962	\$ 15,427	\$ (818)	\$ (109,807)	\$ 263,764
Land associated with capital lease	3,200	-	-	(3,200)	-
Right of way	1,565,220	5,568	(9)	113,111	1,683,890
Construction Work in Progress	353,578	244,421	-	(105,227)	492,772
Total capital assets not being depreciated	<u>2,280,960</u>	<u>265,416</u>	<u>(827)</u>	<u>(105,123)</u>	<u>2,440,426</u>
Other capital assets:					
Buildings	454,879	4,682	(503)	56,056	515,114
Buildings associated with capital lease	50,179	-	-	(50,179)	-
Improvements and Equipment	621,412	37,979	(19,275)	33,086	673,202
Infrastructure	4,604,433	5,001	(19,658)	72,234	4,662,010
Total other capital assets	<u>5,730,903</u>	<u>47,662</u>	<u>(39,436)</u>	<u>111,197</u>	<u>5,850,326</u>
Less accumulated depreciation for:					
Buildings	(158,376)	(15,234)	329	(5,691)	(178,972)
Buildings associated with capital lease	(5,691)	-	-	5,691	-
Improvements and Equipment	(408,754)	(33,152)	17,874	850	(423,182)
Infrastructure	(1,881,237)	(125,517)	17,849	(674)	(1,989,579)
Total accumulated depreciation	<u>(2,454,058)</u>	<u>(173,903)</u>	<u>36,052</u>	<u>176</u>	<u>(2,591,733)</u>
Other capital assets, net	3,276,845	(126,241)	(3,384)	111,373	3,258,593
Primary Government capital assets, net	<u>\$ 5,557,805</u>	<u>\$ 139,175</u>	<u>\$ (4,211)</u>	<u>\$ 6,250</u>	<u>\$ 5,699,019</u>

CITY OF HOUSTON, TEXAS
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B. Business-type Activities

	Balance July 1, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Airport System					
Capital assets not being depreciated:					
Land	\$ 193,210	\$ 6,283	\$ -	\$ (879)	\$ 198,614
Construction Work in Progress	437,613	130,525	-	(238,928)	329,210
Total capital assets not being depreciated	630,823	136,808	-	(239,807)	527,824
Other capital assets:					
Buildings, Improvements and Equipment	3,150,188	3,468	(7,400)	239,807	3,386,063
Total other capital assets	3,150,188	3,468	(7,400)	239,807	3,386,063
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(948,142)	(134,438)	4,891	-	(1,077,689)
Total accumulated depreciation	(948,142)	(134,438)	4,891	-	(1,077,689)
Other capital assets, net	2,202,046	(130,970)	(2,509)	239,807	2,308,374
Airport System capital assets, net	2,832,869	5,838	(2,509)	-	2,836,198
Convention and Entertainment Facilities					
Capital assets not being depreciated:					
Land	99,757	-	-	-	99,757
Construction Work in Progress	20,866	4,208	-	(17,035)	8,039
Total capital assets not being depreciated	120,623	4,208	-	(17,035)	107,796
Other capital assets:					
Buildings, Improvements and Equipment	431,495	113	-	17,283	448,891
Total other capital assets	431,495	113	-	17,283	448,891
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(122,775)	(10,647)	-	(176)	(133,598)
Total accumulated depreciation	(122,775)	(10,647)	-	(176)	(133,598)
Other capital assets, net	308,720	(10,534)	-	17,107	315,293
Convention and Entertainment Facilities capital assets, net	429,343	(6,326)	-	72	423,089
Combined Utility System					
Capital assets not being depreciated:					
Land	100,851	2,010	(1,418)	705	102,148
Construction Work in Progress	637,389	332,804	-	(206,596)	763,597
Total capital assets not being depreciated	738,240	334,814	(1,418)	(205,891)	865,745
Other capital assets:					
Buildings, Improvements and Equipment	225,492	2,865	(2,532)	816	226,641
Plants and Lines	6,910,094	21,114	(26,037)	198,753	7,103,924
Total other capital assets	7,135,586	23,979	(28,569)	199,569	7,330,565
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(117,906)	(7,108)	1,007	-	(124,007)
Plants and Lines	(3,324,975)	(210,133)	18,032	-	(3,517,076)
Total accumulated depreciation	(3,442,881)	(217,241)	19,039	-	(3,641,083)
Other capital assets, net	3,692,705	(193,262)	(9,530)	199,569	3,689,482
Combined Utility System capital assets, net	4,430,945	141,552	(10,948)	(6,322)	4,555,227
Houston Area Water Corporation					
Capital assets not being depreciated:					
Land	-	-	-	2,845	2,845
Construction Work in Progress	156,952	9,076	-	(166,028)	-
Total capital assets not being depreciated	156,952	9,076	-	(163,183)	2,845
Other capital assets:					
Buildings, Improvements and Equipment	-	-	-	24,818	24,818
Plants and Lines	-	-	-	138,365	138,365
Total other capital assets	-	-	-	163,183	163,183
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	-	(559)	-	-	(559)
Plants and Lines	-	(3,181)	-	-	(3,181)
Total accumulated depreciation	-	(3,740)	-	-	(3,740)
Other capital assets, net	-	(3,740)	-	163,183	159,443
Houston Area Water Corporation capital assets, net	156,952	5,336	-	-	162,288
Business-type activities capital assets, net	\$ 7,850,109	\$ 146,400	\$ (13,457)	\$ (6,250)	\$ 7,976,802

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C. Depreciation Expense

Depreciation expense was charged to functions/ programs of the primary government as follows (in thousands):

Governmental activities	
General government	\$ 2,449
Public safety	24,070
Public works	9,946
Health	2,668
Parks and recreation	7,594
Library	1,659
Infrastructure	125,517
Total depreciation expense - governmental activities	\$ 173,903
Business-type activities	
Airport System	\$ 134,438
Convention & Entertainment Facilities	10,647
Combined Utility System	217,241
Houston Area Water Corporation	3,740
Total depreciation expense - business-type activities	\$ 366,066

D. Pension Trust Funds

In February 1998, the Firefighters' Relief and Retirement Fund purchased land in the amount of \$541,194 for use in the construction of a new office building for its operations and its members. In April of 2001, the construction of the new building was completed. The building cost of \$9,096,912 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2006 amounted to \$1,609,221.

Note 7: Short-Term Debt – Tax and Revenue Anticipation Notes

The City issues tax and revenue anticipation notes ("TRANS") in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the City's operating expenses are spread over the entire fiscal year, and the collection of major revenue sources such as property and sales taxes does not coincide with these expenses.

Short-term debt activity for the year ended June 30, 2006, was as follows (amounts in thousands):

	Balance July 1, 2005	Issued	Redeemed	Balance June 30, 2006
Tax and revenue				
Anticipation notes	\$ -	\$ 180,000	\$ 180,000	\$ -

On July 6, 2005, the City closed on the sale of \$180,000,000 Tax and Revenue Anticipation Notes ("TRANS"), Series 2005. The proceeds of the TRANS were used to pay working capital expenditures until tax revenues were received. Stated interest rates were 4.00% to 5.75%, and the average yield was 2.63%. The notes matured on June 30, 2006.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 8: Long-Term Liabilities

A. General Long-Term Liabilities

Changes in General Long-Term Liabilities for the year ended June 30, 2006 are summarized as follows (in thousands):

	Balance July 1, 2005	Additions	Retirements/ Transfers	Balance June 30, 2006	Due within One Year
Governmental Activities					
Bonds and notes payable					
General tax obligation debt	\$ 2,367,306	\$ 615,453	\$ (345,597)	\$ 2,637,162	\$ 256,753
Accretions, net	1,517	346	(61)	1,802	-
HUD Section 108 Loans	23,395	-	(1,515)	21,880	1,680
Deferred charges for electricity	-	4,218	-	4,218	1,277
Houston Emergency Center capital lease	51,253	-	(51,253)	-	-
Plus premium on bonds	66,889	16,912	(7,318)	76,483	-
Less deferred amount on refundings	(19,724)	(3,620)	2,260	(21,084)	-
Total bonds and notes payable	<u>2,490,636</u>	<u>633,309</u>	<u>(403,484)</u>	<u>2,720,461</u>	<u>259,710</u>
Other liabilities:					
Claims and judgments	156,431	47,264	(62,178)	141,517	50,045
Compensated absences	350,688	71,124	(65,952)	355,860	117,505
Arbitrage rebate	86	-	(61)	25	-
Pension liability	292,826	210,237	(157,521)	345,542	-
Total other liabilities	<u>800,031</u>	<u>328,625</u>	<u>(285,712)</u>	<u>842,944</u>	<u>167,550</u>
Governmental Activities Long-Term Liabilities	<u>\$ 3,290,667</u>	<u>\$ 961,934</u>	<u>\$ (689,196)</u>	<u>\$ 3,563,405</u>	<u>\$ 427,260</u>
Discretely Presented Component Units:					
Notes payable	\$ 35,549	\$ -	\$ (2,384)	\$ 33,165	8,968
Revenue bonds	113,050	19,880	-	132,930	4,880
Discretely Presented Component Units Long-Term Liabilities	<u>\$ 148,599</u>	<u>\$ 19,880</u>	<u>\$ (2,384)</u>	<u>\$ 166,095</u>	<u>\$ 13,848</u>

(Continued)

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due within One Year</u>
Business-type activities					
Bonds and notes payable					
Airport System debt	\$ 2,319,241	\$ 10,500	\$ (30,920)	\$ 2,298,821	\$ 31,835
Convention and Entertainment debt	633,719	-	(13,680)	620,039	14,775
Combined Utility System debt	4,295,620	647,735	(445,801)	4,497,554	25,618
Deferred charges for electricity		10,780		10,780	3,262
Houston Area Water Corporation	130,260	-	(2,365)	127,895	2,485
Long-term contracts - Combined Utility	269,088	-	(18,596)	250,492	20,483 *
Premiums, discounts and deferred amount on refundings	20,933	56,149	(2,503)	74,579	-
Total bonds and notes payable	<u>7,668,861</u>	<u>725,164</u>	<u>(513,865)</u>	<u>7,880,160</u>	<u>98,458</u>
Other liabilities:					
Claims and judgments	7,877	3,072	(3,177)	7,772	3,438
Compensated absences	23,759	10,912	(11,601)	23,070	8,942
Arbitrage rebate	1,048	169	(1,096)	121	-
Pension liability	64,063	19,684	(20,717)	63,030	-
Total other liabilities	<u>96,747</u>	<u>33,837</u>	<u>(36,591)</u>	<u>93,993</u>	<u>12,380</u>
Business-type activities					
Long-Term Liabilities	<u>\$ 7,765,608</u>	<u>\$ 759,001</u>	<u>\$ (550,456)</u>	<u>\$ 7,974,153</u>	<u>\$ 110,838</u>
Total Reporting Entity					
Long-Term Liabilities	<u>\$ 11,204,874</u>	<u>\$ 1,740,815</u>	<u>\$ (1,242,036)</u>	<u>\$ 11,703,653</u>	<u>\$ 551,946</u>

*Amount included in contract and retainage payable

CITY OF HOUSTON, TEXAS
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June 30, 2006

B. Schedule of Changes in Bonds and Long-Term contracts (amounts expressed in thousands)

	Stated Interest	Face Value	FY06
	Rate Range	Outstanding	Issued/ Increased
		7/1/2005	Increased
General Tax Obligation Debt			
Public improvement bonds	2.50 to 7.00	1,618,000	227,540
Pension obligations	5.31 to 8.5	261,888	80,443
Commercial paper	3.68 to 10.00	445,700	247,400
Annexed district bonds	4.00 to 8.25	11,650	-
Tax and revenue certificates of obligation	3.00 to 6.00	30,068	60,070
Deferred Electricity Note	6.31	-	4,218
Total General Tax Obligation Debt		<u>\$ 2,367,306</u>	<u>\$ 619,671</u>
HUD Section 108 Loans		<u>\$ 23,395</u>	<u>\$ -</u>
Houston Emergency Center Lease	5.95 to 6.40	<u>\$ 51,253</u>	<u>\$ -</u>
Revenue Bonded Debt			
Airport System Bonds			
Subordinate lien refunding revenue bonds	4.16 to 6.00	\$ 2,173,870	\$ -
Senior lien commercial paper	3.95 to 10.00	48,500	10,500
Inferior lien contractual obligation	5.38 to 6.00	60,065	-
Pension obligations	5.31 to 8.50	36,806	-
Deferred Electricity Note	6.31	-	2,812
		<u>2,319,241</u>	<u>13,312</u>
Convention and Entertainment Facilities			
Senior lien hotel occupancy tax/parking facilities	4.17 to 5.75	607,730	-
Hotel and parking revenue commercial paper	3.53 to 10.00	22,500	-
Pension obligations	5.31 to 8.50	3,489	-
Deferred Electricity Note	6.31	-	708
		<u>633,719</u>	<u>708</u>
Combined Utility System			
Combined Utility System first lien bonds	3.00 to 5.43	3,029,170	395,770
Water and Sewer System junior lien revenue bond	0.25 to 7.00	1,031,468	1,965
Combined Utility System commercial paper	3.93 to 10.00	180,000	250,000
Pension obligations	5.31 to 8.50	54,982	-
Deferred Electricity Note	6.31	-	7,260
		<u>4,295,620</u>	<u>654,995</u>
Houston Area Water Corporation	3.75 to 5.50	<u>130,260</u>	<u>-</u>
Long-Term Contracts-Water and Sewer System			
Coastal Water Authority	2.00 to 7.50	239,010	-
Trinity River Authority	5.75 to 6.75	6,000	-
Other long term contracts	3.22 to 5.87	24,078	-
		<u>269,088</u>	<u>-</u>
Total Revenue Bonded Debt and Long-Term Contracts, Primary Government		<u>\$ 7,647,928</u>	<u>\$ 669,015</u>
Total Bonds and Long-Term Contracts Payable, Primary Government		<u>\$ 10,089,882</u>	<u>\$ 1,288,686</u>

(Continued)

1) Adjustments consist of unamortized bond premiums, discounts, deferred (gains) losses from bond refundings and capital appreciation bond accretions.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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FY06	Face Value		Net Outstanding
Redeemed/Refunded	Outstanding 6/30/06	Adjustments⁽¹⁾	6/30/2006
187,520	1,658,020	55,512	1,713,532
-	342,331		342,331
148,525	544,575	-	544,575
815	10,835	-	10,835
8,737	81,401	1,689	83,090
-	4,218	-	4,218
<u>\$ 345,597</u>	<u>\$ 2,641,380</u>	<u>\$ 57,201</u>	<u>\$ 2,698,581</u>
<u>\$ 1,515</u>	<u>\$ 21,880</u>	<u>\$ -</u>	<u>\$ 21,880</u>
<u>\$ 51,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 27,665	\$ 2,146,205	\$ (38,359)	\$ 2,107,846
-	59,000	-	59,000
3,255	56,810	-	56,810
-	36,806	-	36,806
-	2,812	-	2,812
<u>30,920</u>	<u>2,301,633</u>	<u>(38,359)</u>	<u>2,263,274</u>
13,680	594,050	45,363	639,413
-	22,500	-	22,500
-	3,489	-	3,489
-	708	-	708
<u>13,680</u>	<u>620,747</u>	<u>45,363</u>	<u>666,110</u>
9,000	3,415,940	(91,496)	3,324,444
233,601	799,832	161,982	961,814
203,200	226,800	-	226,800
-	54,982	-	54,982
-	7,260	-	7,260
<u>445,801</u>	<u>4,504,814</u>	<u>70,486</u>	<u>4,575,300</u>
2,365	127,895	(787)	127,108
16,505	222,505	(2,124)	220,381
2,000	4,000	-	4,000
91	23,987	-	23,987
<u>18,596</u>	<u>250,492</u>	<u>(2,124)</u>	<u>248,368</u>
<u>\$ 511,362</u>	<u>\$ 7,805,581</u>	<u>\$ 74,579</u>	<u>\$ 7,880,160</u>
<u>\$ 909,727</u>	<u>\$ 10,468,841</u>	<u>\$ 131,780</u>	<u>\$ 10,600,621</u>

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C. Terms of Long-Term Debt

1. Public Improvement Bonds

The City has issued Public Improvement Bonds on numerous occasions. The bonds are payable from ad valorem tax revenues. The proceeds are used for street and bridge improvements, traffic signals, municipal buildings, parks, and other capital improvements. Interest is payable semi-annually; principal is payable in various amounts annually through March 1, 2035.

2. Pension Obligation Bonds

The City has issued General Obligation Taxable Pension Bonds and a Collateralized Pension Obligation Note. The proceeds were used to reduce the unfunded actuarial accrued liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. Interest is payable semi-annually, and principal is payable in varying amounts through 2036. Although these obligations have an ad valorem tax pledge, a portion of the liabilities is recorded in the enterprise funds because the liabilities are directly related and expected to be paid from those funds based on percentages of payroll.

3. General Obligation Swap Agreements

On February 20, 2004 the City entered into a basis swap referred to as a synthetic reduced variance coupon swap with RFPC, LLC ("RFPC").

Objective. The objective of the swap is for the City to reduce its fixed rate debt service costs through a swap structure that takes on basis risk.

Terms. The notional principal value of the swap is \$200,000,000, with the underlying bonds being various maturities of PIBS issued between 1998 and 2005. The City pays an amount equal to 5% plus the tax-exempt market standard BMA Index rate divided by .667 minus the taxable six-month US Dollar LIBOR rate minus a constant of 67.5 basis points (adjusted for day count), up to a maximum of 10%. The City receives a fixed rate of 5%. Because the two 5% fixed rates offset one another, the City is effectively making variable payments based on BMA and receiving variable payments based on LIBOR plus a fixed spread. The variable rate is fixed for each budget period. The agreement is effective from March 1, 2004 to March 1, 2025. Starting in fiscal year 2017, the notional value of the swap declines as the principal amount of the associated debt is repaid in varying amounts until the debt is retired in 2023. Payments will be received or made every six months based on the indices for the prior budget period.

As of June 30, 2006 the swap created synthetic variable-rate exposure as follows:

	TERMS	RATE (%)
Variable rate payment to counterparty	Fixed Rate	5.000
	BMA/0.667	5.146
	-LIBOR	(4.990)
	-Constant	<u>(0.675)</u>
		4.481
Net payment to counterparty		
Receipt from counterparty	Fixed	<u>(5.000)</u>
Net interest rate swap payment/(receipt)		(0.519)
Fixed rate bond coupon payments		<u>5.128</u>
Synthetic variable interest rate on bonds		<u>4.609</u>

Fair value. The fair value of the swap was \$2,275,000 as of June 30, 2006. The value was calculated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. The City is exposed to credit risk on the swap in the amount of its fair value. RFPC, the swap counterparty, has not been rated by the rating agencies. To mitigate this potential credit risk for an unrated counterparty, the City required RFPC to purchase a surety bond from Ambac Assurance Corporation (Ambac"), a AAA-rated insurance company. Under the surety bond, Ambac is unconditionally and irrevocably obligated to guarantee all payments under the swap by the counterparty. The City's obligations under the swap are also insured. Should Ambac's ratings decline in the future, the counterparty will be required to post collateral for the City's benefit.

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Interest rate risk. The City has an exposure to interest rate risk because it is paying a variable rate on the swap. However, this risk is mitigated because the payment formula has a BMA-based variable component that is offset by subtracting a LIBOR variable component.

Basis risk. The City is exposed to basis risk based on changes in the relationship between the BMA Index and six-month US Dollar LIBOR. The City entered into the swap in anticipation of savings that would be produced based on the historical trading patterns of BMA and LIBOR in different interest rate, tax, and economic environments over the past two decades. If, however, future trading patterns prove to be significantly different than historical ones, the City's anticipated savings could fail to materialize, and it could be exposed to additional costs. Among the factors that could cause this trading relationship to change would be a major reduction in marginal income tax rates, repeal of the tax-exemption on municipal bond interest, or other changes in federal policy that would reduce the benefit that municipal bonds currently enjoy in comparison to taxable investments.

Termination risk. The City may terminate the swap for any reason. The counterparty may terminate the swap if both the City and the City's insurer fails to perform under the terms of the contract. If the swap has a negative fair value at the time of termination, the City will be liable to the counterparty for that payment. The City's termination risk is significantly mitigated by a provision in the swap agreement that allows the City to make the termination payment in equal annual installments from time of termination up to termination date of the agreement in 2025.

Swap receipts and associated debt. The City received \$497,000 during Fiscal Year 2006. As of June 30, 2006, assuming current interest rates, the City will receive swap payments as reported in Note 8D. Because rates vary, variable rate bond interest payments and net swap receipts or payments will vary. Related debt service payments on the underlying Public Improvement Bonds are included in Note 8D with other City Public Improvement Bonds.

4. General Obligation Commercial Paper

The City currently issues Commercial Paper Notes ("Notes") under its \$117.2 million General Obligation Commercial Paper Program, Series A, its \$25.8 million General Obligation Commercial Paper Program, Series B, its \$500 million General Obligation Commercial Paper Program Series D, its \$225 million General Obligation Commercial Paper Program Series E, and its \$139.5 million General Obligation Commercial Paper Program Series F. The Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Notes, but not to exceed 10%. Principal on the Notes is payable from ad valorem tax revenue, the issuance of new commercial paper, bond proceeds and other funds provided under credit lines. Interest is payable as the Notes mature from ad valorem tax revenue collected by the City. Proceeds from the Notes are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the Notes will be remarketed by the commercial paper dealers or extinguished with long-term debt.

During fiscal year 2006 the weighted average interest rate for the General Obligation Notes, including dealer and credit fees, was 3.25%. The average year-end rate, including fees, was 3.68%. The Credit Agreements expire on the following dates: Series A on June 9, 2007, Series B on March 30, 2007, Series D on May 25, 2010, Series E on October 21, 2008, and Series F on May 25, 2010.

5. Annexed District Bonds Assumed

The City has assumed general tax obligation debt of annexed districts. The payment dates and maturities vary, but in general, interest is payable semi-annually and principal is payable annually. The final maturity date is October 1, 2021.

6. Certificates of Obligation

Since 1988, the city has issued Certificates of Obligation each year to provide for the purchase of equipment utilized in general City operations including, without limitation, police vehicles, maintenance vehicles and equipment, computer equipment, and costs associated with demolishing dangerous structures. Each year the City is obligated to levy, assess, and collect ad valorem taxes sufficient to pay principal and interest on the certificates payable semi-annually until maturity. Generally, these certificates are not subject to redemption prior to final maturity, except for the Certificates of Obligation Series 2005D which are subject to optional redemption on or after March 1, 2015.

7. Housing and Urban Development Section 108 Loan (HUD)

The City has borrowed money from the United States Department of Housing and Urban Development ("HUD") and loaned it to the Houston Business Development Initiative ("HBDI") and three hotels in the downtown business district. HBDI in turn makes small business loans to under-served areas of the community. The City has pledged only certain grant revenues and its receipts from the loans to repay HUD.

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8. Airport System Revenue Bonds

These funds are paid solely from a lien on the airport system's net revenues, which must total 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. The bonds have a final maturity in the year 2032.

Airport System Subordinate Lien Revenue Bonds, Series 2000P1 and 2001P2, 2002C, 2002D-1, and 2002D-2, have been issued as auction rate securities with current 7-day resets. Series 2005A has been issued as Variable Rate Demand Obligations with a 7-day reset. These bonds may all be converted to other modes including fixed rate bonds. The City has a liquidity facility in place for the Series 2005A bonds with a termination date of July 1, 2010. The maximum interest rate permitted under the ordinance is 10%.

The City has purchased municipal debt service reserve fund policies that unconditionally guarantee the payment of principal and interest on all current outstanding airport system subordinate lien issues. The reserve policies terminate upon final maturities on various dates in the future. Each of the draws made against the reserve policy shall bear interest at the Prime Rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw.

9. Airport System Commercial Paper

Airport System Senior Lien Commercial Paper Notes Series A and B (the "Notes") have been authorized for \$150 million, and Airport System Inferior Lien Commercial Paper Notes Series C have been authorized for \$150 million to establish, improve, enlarge, extend and repair the City's Airport System, acquire land, and pay interest and cost of issuance of the Notes. During fiscal year 2006 the weighted average interest rate for the Airport System Notes, including dealer and credit fees, was 3.54%. The average year-end rate, including fees, was 3.95%.

The Series A and B Notes are collateralized by revolving credit agreements convertible to direct pay letters of credit issued by a bank, and a lien on the net revenues of the Airport System. The Letter of Credit will terminate on January 4, 2008 for Series A and B.

10. Convention and Entertainment Facilities Bonds

These bonds are special limited obligations of the City that are paid from a lien on the pledged receipts of the Hotel Occupancy Tax (HOT), revenues collected from seven City-owned parking facilities, and rebates of certain taxes derived from operation of the Convention Center Hotel and Parking Garage. The pledged HOT receipts are equal to 5.65% of the cost of substantially all hotel room rentals in the City, plus related penalties and interest for delinquent payments. As long as any of the Senior Lien Bonds remain outstanding, the City is required to levy a Hotel Occupancy Tax at a rate not less than 7%. The City currently levies a Hotel Occupancy Tax at the rate of 7%. Final maturity of the bonds is September 1, 2033.

The City has obtained a debt service reserve insurance policy for the Senior Lien Hotel Occupancy Tax Revenue Bonds. The surety policy provides insurance sufficient to pay maximum annual debt service of the Bonds. The surety policy expires upon final maturity of all outstanding Bonds, September 1, 2033.

The City of Houston Convention Center Revenue Bonds, Series 2001C-1 and 2002C-2, have been issued as 7-day auction rate securities and are subject to conversion at the option of the City and subject to certain restrictions, to bonds that bear interest at rates other than auction rates. The maximum interest rate permitted under the ordinance is 10%.

11. Convention and Entertainment Hotel and Parking Revenue Commercial Paper

Hotel Occupancy Tax and Parking Revenue Commercial Paper Notes Series A have been authorized for \$75 million to finance the costs of site acquisition, construction, and improvements for convention center facilities. The notes are issued as subordinate lien debt. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Upon maturity, the Notes will be remarketed by the commercial paper dealer or extinguished with long-term debt. The Notes are collateralized by a Letter of Credit that expires on January 16, 2008. During fiscal year 2006 the weighted average interest rate for the Notes, including fees, was 3.43%. The average rate in effect at year-end was 3.93%.

12. Combined Utility System First Lien Revenue Bonds

City Council authorized creation of the Combined Utility System ("the System") on September 3, 2003. The Combined Utility System currently consists of the City's Water and Sewer System. In the future the City may elect to include other utility systems. Its bonds are special obligations of the City payable from Net Revenues of the System after payments for maintenance and operations and debt service on Water and Sewer Junior Lien bonds. Net Revenues must equal 110% of the First Lien Revenue Bonds debt service.

The Combined Utility System Revenue Refunding Bonds, Series 2004B and 2004C, were initially issued as 7-day, 28-day, and 35-day Auction Rate Securities. All are in a 7-day mode as of year-end. The maximum rate allowed under the ordinance is 10%.

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13. Combined Utility System Commercial Paper

The Combined Utility System Commercial Paper Notes Program Series A has been authorized for \$900 million to finance costs of eligible projects for the City's combined utility system, including acquisition or construction of improvements and additions or extension for the system, and costs of issuance. The notes are issued as third lien obligations. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Principal on the Notes is payable from the issuance of new commercial paper, bond proceeds and other funds provided under the line of credit available through a revolving credit agreement with four banks. The agreement expires on June 8, 2007. Interest on the Notes is payable from net revenues of the System and loans under the credit agreement. During fiscal year 2006 the weighted average interest rate for the Notes, including credit and dealer fees, was 3.39%. The rate in effect at year-end was 3.82%.

14. Combined Utility System Synthetic Fixed Rate Swap Agreements

Combined Utility System synthetic fixed rate swaps. On June 10, 2004 the City entered into three identical pay-fixed, receive-variable rate swap agreements. The City pre-qualified six firms to submit competitive bids on the swap. The bidding took place on June 7, 2004. The three firms selected all matched the lowest fixed rate bid of 3.7784%.

Objective. The objective of the swaps is to hedge against the potential of rising interest rates in conjunction with the City's Combined Utility System 2004B auction rate variable interest bonds ("2004B Bonds") and to achieve a lower fixed rate than the market rate for traditional fixed rate debt at time of issuance of the 2004B Bonds.

Terms. The notional amount totals \$653,325,000, the principal amount of the associated 2004B Bonds. The City's swap agreements contain scheduled reductions to outstanding notional amounts that follow anticipated payments of principal of the 2004B Bonds in varying amounts during the years 2028 to 2034.

Under the terms of the swaps, the City will pay a fixed rate of 3.7784% (lower than the rate for fixed rate debt at time of issuance) and receive a floating rate equal to 57.6% of One-Month US Dollar LIBOR plus 37 basis points. All agreements were effective June 10, 2004, the date of issuance of the 2004B Bonds. The termination date is May 15, 2034.

At June 30, 2006, the effective rate on the bonds associated with the swap was computed as follows:

	<u>TERMS</u>	RATE (%)
		Received
		<u>(Paid)</u>
Variable rate payment from counterparties	LIBOR x 57.6%	2.9945
	+ Constant	<u>0.3700</u>
Swap receipt		3.3645
Fixed rate paid to counterparties	Fixed	<u>(3.7784)</u>
Net rate (paid)/received for swap		(0.4139)
Average variable rate on 2004B bonds, year end		(3.8604)
Plus dealer and auction fees on 2004B bonds		<u>(0.2530)</u>
Effective rate of 2004B bonds		<u>(4.5273)</u>

In contrast, the fixed rate the City paid on its Combined Utility System Series 2004A fixed rate bonds, which have a comparable maturity, was 5.08%.

Fair value. Because long-term interest rates have declined since inception of the swaps, the swaps had a negative fair value of \$4,573,000 on June 30, 2006. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2006, the City was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates increase and the fair value of the swap become positive, the City would be exposed to credit risk on the swap in the amount of its fair value. The City's swap policy generally requires that swap counterparties be rated double-A or better by at least one nationally recognized rating agency. As of June 30, 2006, the ratings of the three swap counterparties all met this standard (see below). Also, under the agreements, if a counterparty's credit rating falls below double-A, collateral must be posted in varying amounts depending on the credit rating. No collateral has been required to date.

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<u>COUNTERPARTY</u>	Notional <u>Amount</u>	<u>Fair Value</u>	Counterparty Credit Rating <u>(Moody's /S&P /Fitch)</u>
Goldman Sachs Capital Markets	\$ 353,325,000	\$ (2,473,000)	Aa3 /A+ /AA-
Bear Stearns Financial Products	150,000,000	(1,050,000)	Aaa/AAA/--
UBS AG	150,000,000	(1,050,000)	Aa2 /AA+ /AA+
TOTAL	<u>\$ 653,325,000</u>	<u>\$ (4,573,000)</u>	

Basis risk. The City is exposed to basis risk on the swaps because the variable payment received is based on an index other than BMA. Should the relationship between LIBOR and BMA move to convergence (because of reductions in tax rates, for example), the expected cost savings may not be realized. The City has issued tax-exempt auction rate bonds with an average rate of 3.86% (not including dealer and auction agent fees) as of June 30, 2006, whereas the associated LIBOR-based rate of the swap was 3.36%. For the fiscal year, the average rate paid on the auction rate bonds was 2.86%, and the average rate for the swap receipts was 2.82%.

Termination risk. The City may terminate for any reason. A counterparty may terminate a swap if the City fails to perform under the terms of the contract. The City's on-going payment obligations under the swap (and, to a limited extent, its termination payment obligations) are insured, and counterparties cannot terminate so long as the insurer does not fail to perform. If a swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Remarketing risk. The City faces a risk that the remarketing agent will not be able to sell the auction rate bonds at a competitive rate. At times rates vary as investors shift portfolios in and out of the tax-exempt variable rate sector.

Swap payments and associated debt. As of June 30, 2006, debt service requirements for the swap agreements are reported in Note 8D, assuming current interest rates remain the same. As rates vary, variable rate bond interest payments and net swap payments will vary. Expected debt service payments on the associated Combined Utility System 2004B bonds are included with other Combined Utility System Bonds on Note 8D.

15. Combined Utility System Forward Interest Rate Swap

Combined Utility System Forward Starting Swap. On November 1, 2005 the City entered into a forward interest rate swap transaction with RBC Dain Rauscher ("RBC"). The transaction was conducted through a competitive bid process. While execution of the swap on the effective trade date, December 3, 2007, is not mandatory, termination of the agreement would require a cash settlement that could result in net payments or net receipts depending on prevailing market conditions.

Objective. The swap is intended to hedge the interest rate on a portion of the City's variable rate Combined Utility System First Lien Revenue Bonds, Series 2004C which will convert from a taxable status to tax-exempt on December 3, 2007.

Terms. Under the terms of the contract, the City will pay a fixed rate of 3.761% on a par value of \$249,075,000, and it will receive variable payments based on 70% of one-month LIBOR. The City's scheduled net swap payments are insured by Ambac Assurance Corporation.

Fair value. The swap had a fair value of \$9,376,000 on June 30, 2006. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2006, the City was exposed to credit risk in the fair market value of the swap. As of June 30, 2006, RBC was rated Aa2, AA- and AA- by Moody's, Standard and Poor's, and Fitch respectively. Also, under the agreements, if a counterparty's credit rating falls below double-A, collateral must be posted in varying amounts depending on the credit rating. No collateral has been required to date.

Basis risk. The City will be exposed to basis risk on the swap because the variable payment received is based on an index that is not tax-exempt. Should the relationship between LIBOR and BMA move to convergence (because of reductions in tax rates, for example), the expected cost savings may not be realized.

Termination risk. The City may terminate for any reason. RBC may terminate a swap if the City fails to perform under the terms of the contract. The City's on-going payment obligations under the swap (and, to a limited extent, its termination payment obligations) are insured, and RBC cannot terminate so long as the insurer does not fail to perform. If a swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

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16. Water and Sewer System Junior Lien Revenue Bonds

These bonds are paid solely from a lien on the net water and sewer system revenues, which must total 110% of the current debt service requirements on the junior lien bonds. As part of the restructuring to the new Combined Utility System, the City refunded a substantial portion of the outstanding junior lien bonds on June 10, 2004 and reissued bonds as Combined Utility System bonds. Debt service payments on remaining Water and Sewer Junior Lien Revenue Bonds will be made after payment of operating expenses and prior to any debt service payments on the Combined Utility System bonds. The final maturity date for the remaining junior lien bonds is December 1, 2028.

17. Coastal Water Authority (“CWA”)

The contract payable relating to CWA represents the outstanding principal balance of \$137,070,000 at June 30, 2006 of City of Houston Water Conveyance System Contract Certificates of Participation, Series 1993, representing contract payments owed by the City to pay debt service on bonds issued by CWA, plus \$85,435,000 of CWA Revenue Refunding Bonds, Series 1999 and Series 2004, issued by CWA, a governmental agency of the State of Texas, to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City issued the Certificates and endorsed the bonds and is unconditionally obligated to pay from the gross operating revenues of the City’s water and sewer system all debt service payments on these Certificates and Bonds, as well as amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The bonds mature on December 15, 2034.

18. Trinity River Authority (“TRA”)

The contract payable to TRA represents the outstanding principal balance at June 30, 2006 of certain revenue bonds issued by TRA, a governmental agency of the State of Texas, to finance construction of a dam and reservoir on the Trinity River near Livingston, Texas. Pursuant to a contract with TRA, the City has endorsed the bonds associated only with this project and is unconditionally obligated to pay from the gross operating revenues of the City’s water system maintenance and operating expense of the reservoir and amounts necessary to restore any deficiencies in funds required to be accumulated under the TRA bond resolutions.

As consideration for the above obligation, the City receives a perpetual 70% beneficial interest in these reservoir facilities and the use of 70% of the reservoir water. As consideration for the remaining 30% interest in the reservoir facilities and water, TRA is obligated to allow the City credits for water usage. Consequently, the cost of the City’s obligation of TRA has not been reflected in the City’s accounts as a receivable or as a reduction of the cost of the City’s 70% interest in the facilities. The final maturity date for the bonds is April 15, 2008.

19. Houston Area Water Corporation (“HAWC”)

The HAWC Series 2002 Bonds are special obligations of the City that were issued to provide financing for the acquisition of rights-of-way and real property interests, and the design, construction and equipping of the Northeast Water Purification Plant and a water conveyance system.

The Bonds are payable both as to principal and interest solely from pledged revenues, including pledged contract payments made by the City to HAWC under the Amended and Restated Treated Water Supply Contract dated May 1, 2002. Pursuant to the Contract the City has unconditionally agreed to pay to HAWC as maintenance and operation expenses from the gross revenues of the City’s Water and Sewer System such sums as required to pay operation and maintenance expenses incurred by HAWC with respect to the City Project, debt service on the Series 2002 Bonds, amounts required to establish, restore and maintain a debt service reserve fund, and all other debt service obligation expenses. Such payments are an unconditional obligation of the City, but payable solely from gross revenues of the City’s Water and Sewer System.

20. Other Contracts

On June 20, 1967 the City, TRA, and Chambers-Liberty Counties Navigation District contracted with the United States of America to have the U.S. Army Corps of Engineers build a salinity control barrier and recreation facilities at Wallisville Lake. Because of legal actions, construction was blocked for a long period, and the project was not completed until April 2003. The City’s share of the project cost was \$10,580,707, which will be paid to the U.S. government over 50 years at 3.222% interest with final payment due January 1, 2053. Payments will be made only after funding all maintenance and operation costs and debt service payments for the water and sewer system, including required reserves.

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In April 2000 the City, Brazos River Authority (“BRA”), and the Texas Water Development Board (“TWDB”) entered into an agreement to develop the Allen’s Creek water supply reservoir in Fort Bend County as a regional water supply. TWDB committed to provide up to \$20,000,000, or up to 50% of funding, to provide for construction of the project. The City and BRA agreed to purchase TWDB’s ownership share in future years. In 2004 the TWDB paid \$14 million for site acquisition for the project. The City will purchase TWDB’s share. Interest payments on the lease-purchase began in 2005 at an average rate of 5.85%. Interest costs over the first eight years will be partially deferred to later years. Principal payments will begin in 2022, and the final principal payment will be made in 2036.

21. Deferred Electrical Charges

On February 27, 2006 the City entered into an agreement with its electricity provider, the Texas General Land Office, that changed the City’s pricing formula to allow certain electricity expenses to be deferred. At June 30, 2006 the City’s deferred charges totaled \$15 million allocated between the governmental and the enterprise funds as reported in note 8a. The deferred amounts will be paid in monthly increments according to formula adjustments from July 2006 through June 2009, or the City may pay the remaining balance at any time. The payments will be paid from the operating funds that originally incurred the charges.

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D. Schedule for Debt Service Requirements to Maturity (in thousands):

1. General Long-Term Tax Obligation Debt (adjusted for Capital Appreciation and Deferred Interest Bonds reclassification of principal & interest) (in thousands):

Year Ending June 30	Public Improvement Bonds		General Obligation Swap Agreements		Pension Obligation Bonds	
	Principal	Interest	Payment Receipts		Principal	Interest
2007	\$ 124,350	\$ 85,914	\$ (758)		\$ -	\$ 25,273
2008	132,720	79,051	(1,037)		-	25,545
2009	131,955	71,656	(1,037)		-	25,545
2010	129,260	64,946	(1,037)		-	25,545
2011	120,840	58,414	(1,037)		547	25,545
2012-2016	480,825	208,275	(5,185)		6,920	126,272
2017-2021	352,475	94,903	(3,699)		9,236	122,700
2022-2026	177,825	21,275	(613)		-	120,628
2027-2031	-	1,991	-		35,212	119,408
2032-2036	7,770	949	-		290,416	69,043
Total	\$ 1,658,020	\$ 687,374	\$ (14,403)		\$ 342,331	\$ 685,504

Year Ending June 30	General Obligation Commercial Paper		Annexed District Bonds		Tax and Revenue Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 130,400	\$ 19,648	\$ 860	\$ 517	\$ 1,143	\$ 3,582
2008	-	15,245	900	472	2,280	3,530
2009	95,675	12,759	875	429	5,225	3,437
2010	318,500	10,575	940	383	6,440	3,255
2011	-	-	885	337	7,268	6,361
2012-2016	-	-	4,215	1,125	17,825	12,571
2017-2021	-	-	1,975	202	18,245	8,525
2022-2026	-	-	185	5	18,845	2,850
2027-2031	-	-	-	-	4,130	206
2032-2036	-	-	-	-	-	-
Total	\$ 544,575	\$ 58,227	\$ 10,835	\$ 3,470	\$ 81,401	\$ 44,317

Year Ending June 30	Deferred Electricity Note		Total Future Requirements			
	Principal	Interest	Principal	Interest	Swaps (Receipts)	Total Future Requirements
2007	\$ 1,277	\$ 67	\$ 258,030	\$ 135,001	\$ (758)	\$ 392,273
2008	1,426	75	137,326	123,918	(1,037)	260,207
2009	1,515	80	235,245	113,906	(1,037)	348,114
2010	-	-	455,140	104,704	(1,037)	558,807
2011	-	-	129,540	90,657	(1,037)	219,160
2012-2016	-	-	509,785	348,243	(5,185)	852,843
2017-2021	-	-	381,931	226,330	(3,699)	604,562
2022-2026	-	-	196,855	144,758	(613)	341,000
2027-2031	-	-	39,342	121,605	-	160,947
2032-2036	-	-	298,186	69,992	-	368,178
Total	\$ 4,218	\$ 222	\$ 2,641,380	\$ 1,479,114	\$ (14,403)	\$ 4,106,091

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2. HUD Section 108 Loans (in thousands):

Year Ending June 30	Section 108 Loans		
	Principal	Interest	Total Future Requirements
2007	\$ 1,680	\$ 1,143	\$ 2,823
2008	1,980	1,061	3,041
2009	2,045	968	3,013
2010	2,125	866	2,991
2011	2,000	760	2,760
2012-2016	6,160	2,562	8,722
2017-2021	4,550	991	5,541
2022-2025	1,340	86	1,426
	\$ 21,880	\$ 8,437	\$ 30,317

3. Business-Type Funds (adjusted for Capital Appreciation and Deferred Interest Bonds reclassification of principal & interest) (in thousands):

Year Ending June 30	Airport System Revenue Bonds		Airport System Commercial Paper		Airport System Inferior Lien Contract	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 28,385	\$ 107,729	\$ -	\$ 2,333	\$ 3,450	\$ 3,030
2008	29,825	106,267	59,000	1,201	3,660	2,816
2009	41,515	104,344	-	-	3,880	2,602
2010	43,020	102,143	-	-	4,085	2,388
2011	46,005	100,050	-	-	4,305	2,163
2012-2016	272,770	459,335	-	-	25,275	6,953
2017-2021	354,330	378,299	-	-	12,155	678
2022-2026	461,880	275,570	-	-	-	-
2027-2031	584,880	143,420	-	-	-	-
2032-2036	283,595	13,563	-	-	-	-
	\$ 2,146,205	\$ 1,790,720	\$ 59,000	\$ 3,534	\$ 56,810	\$ 20,630

Year Ending June 30	Airport System Pension Obligations		Airport System Deferred Electricity Contract	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 3,065	\$ 851	45
2008	-	3,065	950	50
2009	-	3,065	1,011	53
2010	-	3,065	-	-
2011	-	3,065	-	-
2012-2016	-	15,322	-	-
2017-2021	-	15,322	-	-
2022-2026	-	15,322	-	-
2027-2031	925	15,275	-	-
2032-2036	35,881	9,503	-	-
	\$ 36,806	\$ 86,069	\$ 2,812	\$ 148

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Airport System

Total Future Requirements

	<u>Principal</u>	<u>Interest</u>	<u>Total Future Requirements</u>
	32,686	116,202	148,888
	93,435	113,399	206,834
	46,406	110,064	156,470
	47,105	107,596	154,701
	50,310	105,278	155,588
	298,045	481,610	779,655
	366,485	394,299	760,784
	461,880	290,892	752,772
	585,805	158,695	744,500
	319,476	23,066	342,542
	<u>\$ 2,301,633</u>	<u>\$ 1,901,101</u>	<u>\$ 4,202,734</u>

Year Ending June 30	<u>Convention and Entertainment Facilities Revenue Bonds</u>		<u>Convention and Entertainment Facilities Commercial Paper</u>		<u>Convention and Entertainment Pension Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 14,775	\$ 23,337	\$ -	\$ 883	\$ -	\$ 291
2008	17,540	22,486	22,500	460	-	291
2009	18,620	21,513	-	-	-	291
2010	21,230	20,453	-	-	-	291
2011	23,260	19,367	-	-	-	291
2012-2016	134,389	78,009	-	-	-	1,452
2017-2021	93,026	102,066	-	-	-	1,452
2022-2026	93,950	121,441	-	-	-	1,452
2027-2031	106,346	131,035	-	-	87	1,448
2032-2036	70,914	79,100	-	-	3,402	901
	<u>\$ 594,050</u>	<u>\$ 618,807</u>	<u>\$ 22,500</u>	<u>\$ 1,343</u>	<u>\$ 3,489</u>	<u>\$ 8,160</u>

Year Ending June 30	<u>Convention and Entertainment Deferred Electricity Contract</u>		<u>Convention and Entertainment Total Future Requirements</u>		<u>Total Future Requirements</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2007	\$ 214	\$ 11	\$ 14,989	\$ 24,522	\$ 39,511
2008	239	13	40,279	23,250	63,529
2009	255	13	18,875	21,817	40,692
2010	-	-	21,230	20,744	41,974
2011	-	-	23,260	19,658	42,918
2012-2016	-	-	134,389	79,461	213,850
2017-2021	-	-	93,026	103,518	196,544
2022-2026	-	-	93,950	122,893	216,843
2027-2031	-	-	106,433	132,483	238,916
2032-2036	-	-	74,316	80,001	154,317
	<u>\$ 708</u>	<u>\$ 37</u>	<u>\$ 620,747</u>	<u>\$ 628,347</u>	<u>\$ 1,249,094</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Year Ending June 30	Combined Utility System Revenue Bonds		Combined Utility System Swap Agreements		Combined Utility System Commercial Paper	
	Principal	Interest	Net Swap Payment	Principal	Interest	
2007	\$ 9,000	\$ 171,857	\$ 2,399	-	\$ 8,673	
2008	9,000	172,787	2,441	-	8,673	
2009	15,000	171,691	2,576	-	8,673	
2010	39,665	170,570	2,576	-	8,673	
2011	41,100	169,262	2,576	-	8,673	
2012-2016	225,130	814,624	12,710	226,800	30,010	
2017-2021	415,625	735,885	12,796	-	-	
2022-2026	778,135	592,384	12,796	-	-	
2027-2031	1,040,090	363,416	12,544	-	-	
2032-2036	843,195	82,209	3,786	-	-	
	<u>\$ 3,415,940</u>	<u>\$ 3,444,685</u>	<u>\$ 67,200</u>	<u>\$ 226,800</u>	<u>\$ 73,375</u>	

Year Ending June 30	Water and Sewer Jr. Lien Revenue Bonds		Combined Utility System Pension Obligations	
	Principal	Interest	Principal	Interest
2007	16,618	44,390	\$ -	4,566
2008	16,613	44,809	-	4,566
2009	21,283	51,944	-	4,566
2010	26,022	56,120	-	4,566
2011	30,754	56,288	-	4,565
2012-2016	281,088	189,088	-	22,828
2017-2021	301,831	67,447	-	22,828
2022-2026	84,405	70,036	-	22,828
2027-2031	21,218	84,502	1,560	22,748
2032-2036	-	-	53,422	14,119
	<u>\$ 799,832</u>	<u>\$ 664,624</u>	<u>\$ 54,982</u>	<u>\$ 128,180</u>

Year Ending June 30	Combined Utility System Deferred Electricity Contract		Combined Utility System Total Future Requirements			
	Principal	Interest	Principal	Interest	Net Swap Payment	Total Future Requirements
2007	\$ 2,197	\$ 116	\$ 27,815	\$ 229,602	\$ 2,399	\$ 259,816
2008	2,453	129	28,066	230,964	2,441	261,471
2009	2,610	137	38,893	237,011	2,576	278,480
2010	-	-	65,687	239,929	2,576	308,192
2011	-	-	71,854	238,788	2,576	313,218
2012-2016	-	-	733,018	1,056,550	12,710	1,802,278
2017-2021	-	-	717,456	826,160	12,796	1,556,412
2022-2026	-	-	862,540	685,248	12,796	1,560,584
2027-2031	-	-	1,062,868	470,666	12,544	1,546,078
2032-2036	-	-	896,617	96,328	3,786	996,731
	<u>\$ 7,260</u>	<u>\$ 382</u>	<u>\$ 4,504,814</u>	<u>\$ 4,311,246</u>	<u>\$ 67,200</u>	<u>\$ 8,883,260</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

4. Long-Term Contracts-Combined Utility System (in thousands):

Year Ending June 30	Coastal Water Authority		Trinity River Authority		CWA/TRA Total Future Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	\$ 18,390	\$ 12,263	\$ 2,000	\$ 221	\$ 20,390	\$ 12,484	\$ 32,874
2008	19,470	11,076	2,000	97	21,470	11,173	32,643
2009	18,155	9,947	-	-	18,155	9,947	28,102
2010	14,825	8,991	-	-	14,825	8,991	23,816
2011	13,250	8,117	-	-	13,250	8,117	21,367
2012-2016	67,925	27,817	-	-	67,925	27,817	95,742
2017-2021	19,660	14,875	-	-	19,660	14,875	34,535
2022-2026	24,905	9,579	-	-	24,905	9,579	34,484
2027-2031	13,045	4,697	-	-	13,045	4,697	17,742
2032-2036	12,880	1,259	-	-	12,880	1,259	14,139
	<u>\$ 222,505</u>	<u>\$ 108,621</u>	<u>\$ 4,000</u>	<u>\$ 318</u>	<u>\$ 226,505</u>	<u>\$ 108,939</u>	<u>\$ 335,444</u>

Houston Area Water Corporation

Year Ending June 30	Principal	Interest	Total Future Requirements
2007	2,485	6,592	\$ 9,077
2008	2,585	6,492	9,077
2009	2,680	6,395	9,075
2010	2,790	6,288	9,078
2011	2,940	6,135	9,075
2012-2016	17,160	28,224	45,384
2017-2021	22,410	22,975	45,385
2022-2026	28,960	16,421	45,381
2027-2031	37,250	8,131	45,381
2032-2036	8,635	442	9,077
	<u>\$ 127,895</u>	<u>\$ 108,095</u>	<u>\$ 235,990</u>

Water & Sewer System Contracts

Other Contracts Total

Year Ending June 30	U.S. Army Corps of Engineers		Texas Water Development Board		Future Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	\$ 93	\$ 322	\$ -	\$ 164	\$ 93	\$ 486	\$ 579
2008	97	319	-	246	97	565	662
2009	100	316	-	327	100	643	743
2010	103	312	-	450	103	762	865
2011	106	309	-	573	106	882	988
2012-2016	585	1,492	-	4,648	585	6,140	6,725
2017-2021	685	1,392	-	7,484	685	8,876	9,561
2022-2026	803	1,274	2,660	4,551	3,463	5,825	9,288
2027-2031	941	1,136	4,290	2,850	5,231	3,986	9,217
2032-2036	1,102	974	5,700	1,440	6,802	2,414	9,216
2037-2041	1,292	785	1,350	79	2,642	864	3,506
2042-2046	1,514	563	-	-	1,514	563	2,077
2047-2051	1,774	303	-	-	1,774	303	2,077
2052-2056	792	38	-	-	792	38	830
	<u>\$ 9,987</u>	<u>\$ 9,535</u>	<u>\$ 14,000</u>	<u>\$ 22,812</u>	<u>\$ 23,987</u>	<u>\$ 32,347</u>	<u>\$ 56,334</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

E. Debt Issuances and Refundings

Throughout its history, the City has issued refunding bonds from time to time when there has been an operational or economic gain for the City. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt, including the debt balances refunded during fiscal 2006 described below, has been removed from the City's books.

Public Improvement Refunding Bonds

On July 7, 2005 the City closed the sale of \$100,025,000 of Public Improvement Refunding Bonds, Series 2005A. Stated interest rates ranged from 4.0% to 5.0%, and the average yield was 4.19%. The bonds are due in varying amounts from March 1, 2014 to March 1, 2025. Proceeds were used to fund the second installment of a judgment against the City relating to firefighters overtime pay, to refund certain Public Improvement Bonds and Certificates of Obligation issued from 1999 to 2001, and to pay costs of issuance. The cash savings of the transaction was \$3,860,000, and the net present value savings of the transaction was \$3,384,000, or 4.43%. The acquisition price of the new debt exceeded the carrying value of the old debt by \$3,620,000. This amount is being amortized over the life of the refunded debt.

On November 15, 2005 the City closed the sale of \$95,740,000 of Public Improvement Refunding Bonds, Series 2005E with a stated interest rate of 5.0%. The average yield was 4.54%. The bonds mature in varying amounts from 2013 to 2025. Proceeds were used to refund \$100,000,000 of General Obligation Series A Commercial Paper Notes, and to pay costs of issuance. The Bonds were issued to lock in long term fixed rates rather than to achieve debt service savings.

On April 19, 2006 the City closed on sale of \$24,005,000 Public Improvement Refunding Bonds, Series 2006B with stated interest rates ranging from 4.00 to 5.00%. Yields ranged from 3.91% to 4.40%. The bonds mature in varying amounts between 2014 and 2026. Proceeds were used to pay a non-appealable judgment and legal settlement against the City, and to pay costs of issuance.

Taxable Public Improvement Refunding Bonds

On July 7, 2005, the City closed the sale of \$7,770,000 of Taxable Public Improvement Refunding Bonds, Series 2005B. The stated interest rate was 5.125%, and the yield was 5.237%. The bonds are due in varying amounts from March 1, 2032 to March 1, 2035. Proceeds were used to fund the pension costs related to firefighters overtime judgment and to pay costs of issuance.

Certificates of Obligation

On July 7, 2005 the City closed the sale of \$3,310,000 of Certificates of Obligation, Series 2005C. The stated interest rate was 5.0%, and the yield was 3.2%. The bonds are due on March 1, 2010. Proceeds will be used to fund the demolition of dangerous buildings within the City and to pay costs of issuance.

On November 15, 2005 the City closed the sale of \$53,445,000 of Certificates of Obligation, Series 2005D. Stated interest rates ranged from 3.50% to 5.00%, and the average yield was 4.54%. The bonds are due in varying amounts from 2008 to 2027. The proceeds were used to pay the purchase option price of the Houston Emergency Center Lease and to pay costs of issuance of the Certificates and exercise of the purchase option. Cash savings over future lease payments will be \$4,484,000, and the net present value savings will be \$4,128,000, or 8.1%.

On April 19, 2006 the City closed the sale of \$3,315,000 Certificates of Obligation, Series 2006C. The stated interest rate was 5.0%, and the yield was 3.82%. The Certificates mature in 2013. Proceeds will be used to fund demolition of dangerous buildings within the City and to pay costs of issuance.

Taxable Pension Obligation Bonds

On March 29, 2006 the City closed the sale on \$63,740,000 Taxable Pension Obligation Bonds, Series 2006A. The stated interest rate is 5.508%. The bonds are due March 1, 2036. Proceeds were used to fund \$33 million unfunded actuarial accrued liability of the Houston Municipal Employees Pension System, \$30 million unfunded actuarial accrued liability of the Houston Police Officers Pension System, and to pay costs of issuance.

Water Sewer Junior Lien Revenue Bonds

On July 18, 2005 the City closed the sale on \$1,965,000 in Water Sewer Junior Lien Revenue Bonds, Series 2002C2 in a private placement with the Texas Water Development Board ("TWDB"). The City had contracted with TWDB in June 2002 for a line of credit of \$6,135,000 to be drawn when the City has completed certain work related to drinking water improvements. Previously the City drew \$180,000 on this line, leaving \$3,990,000 to be drawn in the future. Stated interest rates ranged from 2.0 to 3.05%, and the average yield was 2.79%. The bonds mature in varying amounts between 2006 and 2013.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Combined Utility System Revenue Refunding Bonds

On September 28, 2005 the City closed the sale on \$250,855,000 in Combined Utility System First Lien Revenue Refunding Bonds, Series 2005. Stated interest rates ranged from 4.375 to 5.00%, and the average yield was 4.52%. The bonds are due in varying amounts from 2013 to 2035. The proceeds were used to currently refund Water and Sewer Jr. Lien Revenue Bonds Series, 1996C, to currently refund \$200,000,000 of Combined Utility System Commercial Paper Notes, Series A, and to pay costs of issuance. Cash savings on bond debt service payments related to refunding the Water and Sewer Jr. Lien bonds will be \$5,648,000, and the net present value savings will be \$3,870,000, or 6.22%. The acquisition price of the new debt exceeded the carrying value of the old debt by \$143,000. This amount is being amortized over the life of the refunded debt. The portion of bonds related to the Notes refund was issued to lock in long term fixed rates rather than to achieve debt service savings.

On October 11, 2005 the City closed the sale on \$144,915,000 in Combined Utility System First Lien Revenue Refunding Bonds, Series 2005A. Stated interest rates ranged from 5.0 to 5.25%, and the average yield was 3.84%. The bonds are due in varying amounts from 2011 to 2017. The proceeds were used to advance refund Water and Sewer Jr. Lien Revenue Bonds, Series 1996D, and to pay costs of issuance. Cash savings on bond debt service payments will be \$10,556,000, and the net present value savings will be \$6,854,000, or 4.3%. The acquisition price of the new debt exceeded the carrying value of the old debt by \$3,931,000. This amount is being amortized over the life of the refunded debt.

Taxable Pension Deferred Interest Certificate

On October 1, 2005 the City elected to defer \$16,702,500 in interest payments on its \$300,000,000 Collateralized Pension Obligation Note ("the Note), and to allocate such deferred interest to the Uncollateralized Deferred Interest Certificate, as allowed by the ordinance authorizing issuance of the Note. (The City's Enterprise Funds paid \$6,035,000, their allocated share of the total \$22,737,500 interest incurred on the Note.) The Deferred Interest Certificate will bear interest at the greater of a) 8.5%, b) the yield on April 1 of each year for the Treasury obligation maturing closest to December 1, 2033, plus a predefined rate adjustment. Under the authorizing ordinance, the City is allowed to defer up to \$150,000,000 in interest on the Note. The City will pay down the Certificate by December 1, 2033.

F. Bond Compliance Requirements

The revenue bond ordinances require that during the period in which the bonds are outstanding the City must create and maintain certain accounts or funds to receive the proceeds from the sale of the revenue bonds and to account for the revenues (as defined), which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein. The city is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 2%. During fiscal year 2006 the City has complied with the requirements of all revenue bond ordinances and related bond restrictions.

G. Voter Authorized Obligations

On November 4, 2001, voters of the City authorized the issuance of \$776,000,000 of Public Improvement Bonds. Since June 2002 City Council has authorized issuance of \$500,000,000 as General Obligation Commercial Paper Series D and \$115,000,000 as General Obligation Commercial Paper Series G.

On November 7, 2006, voters of the City authorized the issuance of \$625,000,000 in additional Public Improvement Bonds.

In addition, the City is authorized by the City Charter to issue \$100,000 annually in general improvement bonds without voter approval.

H. Legal Debt Margin

At June 30, 2006 the City's legal debt limit was 10% of assessed property valuation totaling \$142,385,665,000. The City's legal debt margin was \$9,302,584,000.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 9: Leases

Operating Leases

A. City as Lessee

The City has obtained office space, data processing and other equipment through long-term operating leases. The future minimum payments under these agreements are as follows (in thousands):

<u>Year ended June 30</u>	<u>Operating Lease Payments</u>
2007	5,252
2008	2,898
2009	2,597
2010	1,293
2011	651
2012-2016	1,306
2017-2021	833
2022-2026	820
2027-2031	574
Total	<u>\$ 16,224</u>

One lease has yet to be renewed and the City is paying month to month. This monthly amount is \$55,715.

B. City as Lessor

The Convention and Entertainment Facilities department is the lessor of one (1) land lease, Toyota Center Land Lease, with an asset cost of \$20,000,000; five (5) building leases of which all are substantially leased with asset costs of \$97,127,453 and carrying costs of \$57,408,365. Accumulated depreciation on these assets is \$39,719,087.58. These buildings located in the Theater District are; Houston Center for the Arts, Wortham Theater, Jones Hall Theater, Talento Bilingue and the Downtown Aquarium. All buildings are used for performance and entertainment purposes.

The Airport System is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of \$19,861,357 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of \$3,386,063,000 and carrying costs of \$2,308,374,000. Accumulated depreciation on all these assets is \$1,077,689,000. Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

<u>Year Ended June 30</u>	<u>Operating Leases Minimum Rental Income</u>
2007	36,371
2008	32,303
2009	30,383
2010	28,422
2011	26,918
2012-2016	116,323
2017-2021	103,159
2022-2026	96,221
2027-2031	39,482
2032-2036	12,401
2037-2041	11,007
2042-2046	3,711
Total	<u>\$ 536,701</u>

The contingent income associated with these non-cancelable operating leases was approximately \$10,135,860 in Fiscal Year 2006. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Such income for fiscal year 2006 was approximately \$260,500,865.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 10: Pension Plans

A. Plan Descriptions

The City has three single employer defined benefit pension plans (Firefighters' Relief and Retirement Fund, Municipal Employees' Pension System, and the Police Officers' Pension System), which cover substantially all of its employees. These pension plans were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243g, 6243g-4, respectively), which establish the various benefit provisions. All plans provide for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes, and for the Municipal Employees' Pension System and the Houston Police Officers' Pension System, some requirements are delineated in new (September '04) meet and confer agreements. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or, in the cases of the Municipal Employees' Pension System and the Police Officers' Pension System, amounts agreed to in meet and confer agreements. All pension plans provide service, disability, death, and vesting benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes. The specific summary plan description is available at the plan offices.

On November 10, 2004 the City issued a \$300,000,000 collateralized note ("The Collateralized Note") to HMEPS as part of the meet and confer agreement with HMEPS to fund part of the unfunded accrued actuarial liability of its pension plan. The collateralized note bears interest at 8.5% per year unless the rate of adjustment formula based on U.S. Treasury securities maturing in 2003, calls for a higher interest rate. The promissory note from the Houston Hotel Corporation to the City, as well as the related Deed of trust, is pledged as collateral on the collateralized notes. Interest on the collateralized notes may be paid or deferred, at the City's option, up to a maximum of \$150,000,000 plus 75% of the amount by which the appraisal value of the hotel exceeds \$300,000,000. If the interest is deferred, the City will issue uncollateralized deferred interest certificates that may be converted to assignable certificates at the request of HMEPS up to \$150 million, or collateralized deferred interest certificates up to the limit based on the appraisal value of the hotel. The Collateralized Note constitutes a general obligation of the City with an ad valorem tax pledge, but the City may look to other revenue sources available to pay the debt, including the collateral and its proceeds as well as interest deferrals.

B. Actuarially Determined Contribution Requirements and Contributions Made

Historically, the City's funding policies have provided for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll, except for the police officers pension system, which has had a statutorily limited level of employer contributions. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The firefighters' and municipal pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 30 years from July 1, 2004 and the police pension uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability over 30 years (constant). (See "Subsequent Events" note on page 110 for further pension information related to the municipal and police pension funds.)

The reported contributions to the pension funds for the year ended June 30, 2006, were different from the actuarially determined requirements based on July 1, 2005 actuarial valuation for Municipal, and July 1, 2004 for Fire and Police. Contributions are as follows:

<u>Percentage of Payroll</u>	<u>Firefighters</u>	<u>Municipal</u>	<u>Police</u>
City of Houston normal cost	20.7%	15.6%	16.7%
Amortization of unfunded actuarial accrued liability (surplus)	10.4%	8.5%	14.5%
Required employer contribution rate	31.1%	24.1%	31.2%
Employer contribution made	24.9%	16.5%	15.9%
Employee contribution made	9.00%	5.0%	9.0%
<u>Contribution Amounts (in thousands)</u>			
Net contribution required	\$ 88,654	\$ 122,633	\$ 132,699
Total City contribution	56,238	69,000	53,000
Total employee contribution	18,470	21,888	28,863
Total contribution	\$ 74,708	\$ 90,888	\$ 81,863

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

C. Annual Pension Cost and Net Pension (Obligation) Asset

The annual pension cost associated with the City's three pension funds for the current year is as follows (in thousands):

	Houston Firefighters' Pension	Houston Municipal Employees' Pension	Houston Police Officers' Pension
Annual required contribution	\$ 70,184	\$ 100,745	\$ 103,836
Interest on net pension obligation	(762)	16,135	10,702
Adjustment to annual required contribution *	21,405	(54,710)	(7,872)
Annual pension cost	<u>90,827</u>	<u>62,170</u>	<u>106,666</u>
Contribution made	56,238	69,000	53,000
Change in net pension (obligation) asset	(34,589)	6,830	(53,666)
Net pension (obligation) asset beginning	29,742	(231,144)	(125,745)
Net pension (obligation) asset end of year	<u>\$ (4,847)</u>	<u>\$ (224,314)</u>	<u>\$ (179,411)</u>

*Includes an adjustment for the re-calculation of the annual required contribution for prior years.

D. Houston Firefighters' Pension System

Schedule of Employer Contributions (in millions)

Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Asset (Obligation)	Annual Required Contribution as a % of Base Pay
2003	\$22.7	121%	\$57.2	14.9%
2004	\$36.3	78.1%	\$49.3	23.8%
2005	\$52.2	62.5%	\$29.7	31.1%
2006	\$90.8	61.9%	(\$4.8)	31.1%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2004
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, net of expenses
Inflation rate	3.0%
Payroll growth rate	3.0%
Annual increase attributable to seniority/merit	3.0% to 7%
Cost of living adjustment	3% annually

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

E. Houston Municipal Pension System Information

Schedule of Employer Contributions (in millions)

Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation	Annual Required Contribution as a % of Base Pay
2003	\$76.7	53.0%	\$92.3	17.7%
2004	\$133.5	43.6%	\$167.8	31.8%
2005	\$129.4	51.1%	\$231.1	29.4%
2006	\$62.2	111.0%	\$224.3	24.1%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2005
Actuarial cost method	Entry Age Normal cost
Amortization method	Level percentage of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year period
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
investment rate of return	8.5%, net of expenses
Payroll growth factor	3.0%
Projected individual salary increases	Graded rates based on years of service
General inflation rate	3.0%

F. Houston Police Officer's Pension System Information

Schedule of Employer Contributions (in millions)

Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation	Annual Required Contribution as a % of Base Pay
2003	\$57.1	61.0%	\$19.2	20.5%
2004	\$73.9	49.6%	\$56.5	24.4%
2005	\$105.9	34.6%	\$125.8	31.2%
2006	\$106.7	49.7%	\$179.4	31.2%

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2004
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level percent of payroll Amortized over a constant open period of 30 years
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, with a maximum of 5-year average of 7.0%
Payroll growth rate, attributable entirely to inflation	3.5 %
Annual increase attributable to seniority/merit	0.0% to 9.5%
Annual cost of living adjustment	3.0%
Projected salary increases	Graded rates based on years of service

Note 11: Other Employee Benefits

A. Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City amounted to approximately \$50,809,267 for the year ended June 30, 2006. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2006, there were 8,436 retirees eligible to receive benefits.

B. Health Benefits Internal Service Fund

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self-insured with specific individual aggregate stop loss features Preferred Provider Organization Plan (PPO). Specific and aggregate stop loss insurance is provided for the PPO plan of \$300,000 and approximately \$11,000,000 based on enrollment, respectively. Premiums paid (employer and subscriber) for current employees to third party administrators totaled approximately \$152,268,079 for the year ended June 30, 2006. Effective May 2004, the POS plan was replaced with self-insured Preferred Provider Organization (PPO).

The City also provides one times salary of basic life insurance, with a minimum of \$15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled \$5,368,443 for the year ended June 30, 2006.

PPO/POS and PPO/OOA		
Schedule of Changes in Liability		
(in thousands)		
	June 30, 2006	June 30, 2005
Beginning actuarial estimate of claims liability, July 1	\$ 942	\$ 1,011
Incurred claims for fiscal year	9,036	9,153
Payments on claims	(9,501)	(9,959)
Actuarial adjustment	494	737
Ending actuarial estimate of claims liability, June 30	<u>\$ 971</u>	<u>\$ 942</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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C. Long-Term Disability Plan

The long-term disability plan, accounted for as an internal service fund, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of two years of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Disability Management Alternatives, Inc., which is reimbursed from the fund for claims as they are paid along with a fee for administrative services. Effective September 1, 2001 the Meet and Confer Agreement established Paid Time Off (PTO) for police classified officers. This replaces their participation in the LTD plan.

Schedule of Changes in Liability		
(in thousands)		
	June 30, 2006	June 30, 2005
Beginning actuarial estimate of claims liability, July 1	\$ 6,351	\$ 5,799
Incurred claims for fiscal year	1,908	1,890
Payments on claims	(772)	(688)
Actuarial adjustment	(441)	(650)
Ending actuarial estimate of claims liability, June 30	\$ 7,046	\$ 6,351

D. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum amount is the lesser of \$50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is \$1,000. Pursuant to tax law changes, the Plan's assets are no longer subject to the City's general creditors and are not included in these financial statements.

E. Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Cambridge Integrated Services Group, Inc. Funds are wire transferred to Cambridge as needed to pay claims.

At June 30, 2006 the City has an accumulated liability in the amount of \$76 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the Statement of Net Assets and Enterprise Funds. The amount of liability is based on the estimate of an independent actuary.

Schedule of Changes in Liability		
(in thousands)		
	June 30, 2006	June 30, 2005
Beginning actuarial estimate of claims liability, July 1	\$ 62,307	\$ 56,095
Incurred claims for fiscal year	10,796	16,202
Payments on claims	(14,218)	(18,337)
Actuarial adjustment	17,135	8,347
Ending actuarial estimate of claims liability, June 30	\$ 76,020	\$ 62,307

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 12: Interfund Transactions

A. Transfers

Transfers during the year ended June 30, 2006, were as follows (in thousands):

Transferred from:	Transferred to:							
	General Fund	Nonmajor Governmental Funds	Debt Service	Capital Projects	Grants Fund	Convention & Entertainment Facilities	Houston Area Water Corporation	Total Transfers Out
General Fund	\$ -	\$ 8,270	\$ 195,687	\$ -	\$ -	1,072	\$ -	\$ 205,029
Grants Fund	1,013	-	-	-	-	-	-	1,013
Nonmajor Funds	5,076	-	1,622	292	-	-	-	6,990
Capital Projects	-	-	49,766	-	10,000	-	-	59,766
Combined Utility System	6,322	31,300	27,093	7,008	-	-	22,156	93,879
Total transfers in	\$ 12,411	\$ 39,570	\$ 274,168	\$ 7,300	\$ 10,000	\$ 1,072	\$ 22,156	\$ 366,677

Transfers are used to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (3) use unrestricted revenues in the Combined Utility fund and special revenue fund to finance general fund programs.

The Combined Utility System transferred capital assets valued at \$6.322 million to the General Fund, while the General Fund transferred capital assets valued at \$72 thousand to Convention and Entertainment Facilities.

B. Transfers to Component Units

Transfers to the Cultural Arts Council of Houston from the Convention and Entertainment Facilities during the year ended June 30, 2006 totaled \$9,890,000.

C. Interfund Charges

The General Fund charges the Airport System, Convention and Entertainment Facilities, Combined Utility System, Capital Project, Sign Administration, Auto Dealer's and Cable Television Funds for services provided by the General Fund on behalf of these funds. Such charges totaled \$73,193,000 for the year ended June 30, 2006, and are recorded as revenue in the General Fund and as expense, expenditure or capital assets in the funds assessed.

Included in the Fiscal Year 2006 total are charges to the funds for direct and indirect expenses as shown below (in thousands):

	Airport System	Convention & Entertainment Facilities	Combined Utility Sytem	Other Funds	Total
General Services	\$ 2,388	\$ 443	\$ 2,157	\$ 9,907	\$ 14,895
Fire Services	11,924	-	-	-	11,924
Police Services	16,453	-	-	-	16,453
Engineering Services	-	-	464	(242)	222
Fleet Maintenance	236	60	9,292	8,737	18,325
Legal	-	-	330	124	454
Other	269	250	1,656	8,745	10,920
Total	\$ 31,270	\$ 753	\$ 13,899	\$ 27,271	\$ 73,193

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

D. Schedule of Amounts Due To and Due From Other Funds

The interfund balances are primarily due to charges for services between funds during the fiscal year and settled shortly after year-end. The composition of interfund balances as of June 30, 2006 is as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Grants revenue	\$ 22,355
		<u>\$ 22,355</u>
Capital Projects Fund	General Fund	\$ 470
		<u>\$ 470</u>
Airport System	General Fund	\$ 505
		<u>\$ 505</u>
Convention and Entertainment Facilities	General Fund	\$ 124
		<u>\$ 124</u>
Combined Utility System	General Fund	\$ 1,924
		<u>\$ 1,924</u>
HAWC	Combined Utility	\$ 742
		<u>\$ 742</u>
Nonmajor Governmental Funds	General Fund	\$ 224
		<u>\$ 224</u>

Note 13: Commitments and Contingencies

A. Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotional practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; and claims involving property tax assessments and various other liability claims. Alleged damages in the lawsuits are approximately \$224.3 million. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. There is other threatened litigation for which an amount cannot be determined. The City typically utilizes the General Fund to liquidate claims and judgments. In the Statement of Net Assets, the City has recognized a liability of \$45.9 million for potential litigation losses arising from various lawsuits.

Re: Cause No. 2006-70981; *Bruce Hotze v. Bill White, Mayor, et al*; In the 133rd Judicial District Court of Harris County, Texas
 In 2004, Houston voters approved two ballot propositions limiting City revenue growth. Proposition 1 generally limits annual growth in property tax revenues to the lesser of the actual revenues in the preceding fiscal year, plus 4.5 percent, or the revenues received in the previous fiscal year, plus the cumulative combined rates of inflation and the city's population growth. With the exception of grant monies, revenue received from other governmental entities and interfund transfers, Proposition 2 caps growth in all City revenues, including the General Fund, Special Revenue Funds and Enterprise Funds ("combined revenues"). Proposition 2 would require a 60 percent vote at a regular election before the City could increase combined revenues over the combined revenues for the preceding fiscal year as adjusted for rates of change in the consumer price index and population growth. Any combined revenues collected by the City in excess of the Proposition 2 restriction would be placed in a taxpayer relief fund. Although both propositions received a majority of votes in the 2004 election, it is the City's position that only Proposition 1 is effective because it received a higher number of favorable votes. Supporters of Proposition 2 have sued in State District court to enforce the provisions of Proposition 2. The district court ruled in favor of the plaintiffs and ordered that both propositions be in effect. The City filed an appeal, briefing was filed in the last quarter of 2006 and the parties are awaiting a ruling from the Fourteenth Court of Appeals. According to an analysis conducted by the City Controller's Office, the Fiscal Year 2006 budget complies with the requirements of both propositions.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

In 2006, Houston voters approved several ballot propositions including Proposition G, which eliminated some of the most serious concerns created by the potential application of Proposition 2 - by revising how the City's revenues limited by the Charter would be calculated (including the removal of the revenues of the City's Enterprise Funds from the revenues limited by the City Charter), and Proposition H, which allowed the City to raise revenues for police, fire, and emergency services in excess of the revenues allowed under any revenue limitations contained in the City Charter. A supporter of Proposition 2 has filed a second suit in State District court seeking to invalidate Propositions G and H. The City filed a Plea to the Jurisdiction, which is currently set for hearing in May 2007.

Included within the Claims and Judgments liability line item is an accrual of \$24.1 million related to the settlement of litigation styled as *Juan E. Vela v. City of Houston* which was filed in 1995 with a settlement reached during fiscal year 2005. The settlement relates to Houston Fire Department paramedics lawsuit against the City for past due overtime pay and liquidated damages, and calls for the remaining liability to be paid during fiscal years 2006 and 2007.

B. Environmental Liabilities

The City is aware of various sites contaminated by asbestos or other hazardous materials. The City has recorded accrued liabilities of \$16.4 million, to be used for: assessment and remediation of asbestos, lead and mold; Phase I and II environmental site assessments and remediation; and remediation of radioactive material.

C. Commitments for Capital Facilities

At June 30, 2006, the City had appropriated but not yet spent from Capital Projects and Enterprise Funds approximately \$1,290,728,000 for capital projects.

The City leased a tract of land for 30 years with a 30-year renewal option for \$100 per year to The Houston Music Hall Foundation. On this site, the Houston Music Hall Foundation constructed the new music hall named the Hobby Center for the Performing Arts. Substantial completion occurred by October 31, 2002, as required by the agreement. The grand opening was in May of 2003. The Music Hall was to be conveyed to the City upon completion of various improvements. However, the Music Hall became involved in litigation with the contractor regarding these improvements and the title has not been conveyed to the City as June 30, 2006. Convention & Entertainment are anticipating receiving the appropriate conveyance documents during fiscal year 2007.

The City is obligated to pay from parking revenues \$1.1 million per year for 30 years beginning on the commencement of the lease. The City's annual obligation is secured by a pledge of the parking revenues from the Civic Center and Tranquility Park Parking Garages equal to \$1.2 million per year for 30 years.

D. Risk Management

The City carries fidelity coverage to comply with City ordinance, boiler and machinery insurance and purchases commercial property insurance with a per occurrence loss limit of \$100 million. Property insurance provides deductibles as follows \$2.5 million per occurrence for all perils; 3% of the damaged insured value for windstorm or hail from a named storm, subject to \$2.5 million minimum and a \$20 million maximum; and 5% of the damaged insured value for flood, subject to a \$5 million minimum and a \$20 million maximum. Although no losses were sustained in excess of the \$100 million per occurrence loss limit in the last five years, Tropical Storm Allison (2001) caused damages in excess of the \$5 million sub-limit to locations in the 100-year flood plain (Flood Zone A). Insurance reimbursed the City \$32.6 million for property damage. The current sub-limit for flood is \$50 million, of which \$35 million may apply to Flood Zone A.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the Government-wide Statement of Net Assets.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

Through its Health Benefit Plan, the City has consistently purchased commercial insurance up to certain limitations in the event of adverse loss experience.

CITY OF HOUSTON, TEXAS
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For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

	Unemployment Claim Activity	
	June 30, 2006	June 30, 2005
Unpaid claims, beginning of fiscal year	\$115,511	\$112,223
Incurred claims (including IBNRs)	432,208	1,114,092
Claim payments	(391,673)	(1,110,804)
Unpaid claims, end of fiscal year	\$156,046	\$115,511

E. Electricity Futures Contracts

Objective of the futures contracts. The City’s electric supply agreement provides that the City will purchase electricity at prices based on market prices of natural gas at time of delivery. Therefore the City is exposed to significant price fluctuations in its electricity purchases. The agreement also allows the City to lock in fixed natural gas prices for future periods. To hedge the risk of increases and to be able to accurately budget future purchases, the City has entered into contracts to lock in fixed rates for the natural gas price component of future electricity purchases.

Terms: At June 30, 2006 the City had seven outstanding agreements to cover natural gas purchases for July 2006 through March 2007. As of June 30, 2006 the aggregate notional amount of the seven agreements was 673.50 contracts or 6,735,000 million British thermal units (MMBtu’s) of natural gas. Locked in prices ranged from \$6.12 to \$10.41 per MMBtu.

Fair value: As of June 30, 2006 because natural gas futures prices had changed from the time of the agreements, the contracts had a total net fair value of negative \$5,309,000. (Contracts for four future months had a total positive value of \$405,000, and contracts for five other months had a total negative value of \$5,714,000.)

Credit risk: As of June 30, 2006 the City is exposed to credit risk on the contracts for four months with fair positive value of \$405,000. The City’s electrical provider is the Texas General Land Office (“GLO”), an agency of the State of Texas, which is rated AA1 by Moody’s, AA by Standard and Poor’s, and AA+ by Fitch.

Termination risk: GLO can terminate the electrical supply agreement (and related price agreements) only if the City defaults on its obligations. The City can unwind the price agreements at its discretion, paying or receiving market value credit at the time of the unwind.

F. Federal and State

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, could be a liability of the City.

Note 14: Related Organization Transactions

A. Metropolitan Transit Authority (“Metro”)

The City and Metro have an interlocal agreement covering shared costs of street maintenance/construction and traffic control during the fiscal year ended June 30, 2006. The City received \$59.154 million from Metro under this contract in the fiscal year ended June 30, 2006. The breakout was \$35.316 million to Capital Projects, \$22.713 million to General Fund, and \$1.125 million to Special Revenues. Of this amount, \$4.379 million was for the prior contract year. In addition, the City paid Metro \$5.644 million, of which \$4.514 million was for capital projects, and \$1.130 million was for transportation services.

B. Trinity River Authority (“TRA”)

As described in Note 8C, the City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the fiscal year ended June 30, 2006 the City paid \$2.3 million for debt service and \$2.6 million for maintenance and operating expenses under the terms of the contract.

C. Coastal Water Authority (“CWA”)

The City has a long-term contract with Coastal Water Authority (CWA) for the acquisition of water. During the fiscal year ended June 30, 2006, the City paid CWA \$29.9 million for debt service and \$16.1 million for maintenance and operating expenses.

CITY OF HOUSTON, TEXAS
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June 30, 2006

D. Houston Convention Center Hotel Corporation

Upon formation of the Houston Convention Center Hotel Corporation (HCCHC), the City entered into various agreements with HCCHC, as part of the agreements, the City agreed to loan HCCHC \$310 million of the convention & entertainment facility bonds, primarily for construction of the Hilton Americas Hotel. Repayment terms of the loan (including interest rates) coincide with the City's scheduled debt service payments

In accordance with the Interlocal Agreement and the hotel management agreement, after meeting certain other funding and reserve requirements, the City can require the distribution of a preferred return from available cash flow (as defined) equal to the preferred return amount (approximately \$1 million for 2003, \$20 million for 2004, and \$25 million per year thereafter) minus the debt service for the applicable year. In January 2006, a preferred return payment of \$4,020,699 was made to the City.

E. Component Units

As described in note 16, the City has a number of component units, most of which have fiscal years ended June 30, 2006. Two component units, Houston Convention Center Hotel Corporation (HCCHC) and Houston Housing Financing Corporation (HHFC), have fiscal years ended December 31, 2005. Subsequent to December 31, 2005, the City received interest payments of \$66 thousand from HCCHC and \$345 thousand from HHFC. These payments are necessary to reconcile to the City's due from component units as of June 30, 2006.

Note 15: Conduit Debt Obligations

To provide for the airport facilities, the City has issued eight series of Special Facility Revenue Bonds. These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements, except for the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A, which are reported as an Inferior Lien Obligation because the City has contracted with Continental Airlines to operate certain facilities and pay related debt service. See Note 8D.

At June 30, 2006, the aggregate value of Special Facility Revenue Bonds outstanding was \$649,655,000, which includes \$56,810,000 of City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A.

**CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 16: Major Discretely Presented Component Units

The following discretely presented component units represent major component units. For reporting purposes, the City considers a component unit to be major if assets, liabilities, revenues or expenses exceed 10% of that component unit's class and exceed 5% of all component units combined.

Net Assets
Major Component Units - Discretely Presented Governmental
June 30, 2006
(in thousands)

	Houston Arts Alliance (frmly Cultural Arts Council)	Greater Houston Convention & Visitor's Bureau	Houston Downtown Park Corporation
Cash, receivable and other current assets	\$ 3,995	\$ 3,900	\$ 11,096
Noncurrent assets	-	-	-
Capital assets, net of accumulated depreciation	15	255	57,628
Total assets	<u>4,010</u>	<u>4,155</u>	<u>68,724</u>
Current liabilities	1,613	2,607	642
Long-term liabilities	-	-	-
Total liabilities	<u>1,613</u>	<u>2,607</u>	<u>642</u>
Net assets			
Invested in capital assets, net of related debt	-	-	56,986
Restricted	1,458	-	-
Unrestricted (deficit)	939	1,548	11,096
Total net assets (deficit)	<u>\$ 2,397</u>	<u>\$ 1,548</u>	<u>\$ 68,082</u>

(Continued)

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Midtown Redevelopment Authority	Uptown Revopment Authority	Nonmajor Component Units	2006
\$ 48,868	\$ 13,997	\$ 110,175	\$ 192,031
2,461	1,283	10,475	14,219
<u>8,891</u>	<u>550</u>	<u>22,917</u>	<u>90,256</u>
<u>60,220</u>	<u>15,830</u>	<u>143,567</u>	<u>296,506</u>
4,647	10,210	30,868	50,587
<u>59,450</u>	<u>37,220</u>	<u>72,846</u>	<u>169,516</u>
<u>64,097</u>	<u>47,430</u>	<u>103,714</u>	<u>220,103</u>
5,244	550	18,234	81,014
37,006	6,150	38,444	83,058
<u>(46,127)</u>	<u>(38,300)</u>	<u>(16,825)</u>	<u>(87,669)</u>
<u>\$ (3,877)</u>	<u>\$ (31,600)</u>	<u>\$ 39,853</u>	<u>\$ 76,403</u>

CITY OF HOUSTON, TEXAS
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June 30, 2006

Change in Net Assets
Major Component Units - Discretely Presented Governmental
For the Year Ended June 30, 2006
(in thousands)

Component Units	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Houston Arts Alliance (formerly Cultural Arts Council)
Houston Arts Alliance (frmly Cultural Arts Cou..)	\$ 9,785	\$ 115	\$ 10,320	\$ -	\$ 650
Greater Houston Convention & Visitors Bureau	12,873	552	12,007	-	-
Houston Downtown Park Corporation	7,534	-	6,073	-	-
Midtown Redevelopment Authority	10,881	-	2,056	-	-
Uptown Development Authority	9,640	-	-	-	-
Nonmajor Component Units	23,463	1,111	8,074	492	-
Total component units	\$ 74,176	\$ 1,778	\$ 38,530	\$ 492	\$ 650
General Revenues:					
Taxes					
Property taxes levied for general purposes					-
Contributions					-
Unrestricted investment earnings					-
Other					58
Special Items					-
Transfers					-
Total general revenues, special items and transfers					58
Change in net assets					708
Net assets beginning					1,689
New component unit & restatement					-
Net assets ending					\$ 2,397

(Continued)

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Net (Expense) Revenue and Change In Net Assets

Greater Houston Convention & Visit. Bureau	Houston Downtown Park Corporation	Midtown Redevelopment Authority	Uptown Redevelopment Authority	Non-Major Component Units	Total Component Units
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650
(314)	-	-	-	-	(314)
-	(1,461)	-	-	-	(1,461)
-	-	(8,825)	-	-	(8,825)
-	-	-	(9,640)	-	(9,640)
-	-	-	-	(13,786)	(13,786)
<u>\$ (314)</u>	<u>\$ (1,461)</u>	<u>\$ (8,825)</u>	<u>\$ (9,640)</u>	<u>\$ (13,786)</u>	<u>\$ (33,376)</u>
	-	8,173	7,846	27,949	43,968
-	-	-	-	369	369
149	1	1,288	259	4,062	5,759
-	-	294	-	2,298	2,650
-	-	-	-	-	-
-	-	-	-	-	-
<u>149</u>	<u>1</u>	<u>9,755</u>	<u>8,105</u>	<u>34,678</u>	<u>52,746</u>
(165)	(1,460)	930	(1,535)	20,892	19,370
1,713	69,542	(4,807)	(30,065)	18,961	57,033
-	-	-	-	-	-
<u>\$ 1,548</u>	<u>\$ 68,082</u>	<u>\$ (3,877)</u>	<u>\$ (31,600)</u>	<u>\$ 39,853</u>	<u>\$ 76,403</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Net Assets
Major Component Units - Discretely Presented Business-type
June 30, 2006
(in thousands)

	Houston Convention Center Hotel Corp.	Houston Housing Finance Corp.	Houston Zoo Inc.	Total
Cash, receivable and other current assets	\$ 21,096	\$ 22,216	\$ 31,000	\$ 74,312
Noncurrent assets	25,216	18,335	-	43,551
Capital assets, net of accumulated depreciation	264,680	-	15,803	280,483
Total assets	310,992	40,551	46,803	398,346
Current liabilities	20,834	430	3,050	24,314
Long-term liabilities	315,281	2,478	-	317,759
Total liabilities	336,115	2,908	3,050	342,073
Net assets				
Invested in capital assets, net of related debt	(30,386)	-	-	(30,386)
Restricted	12,624	1,390	27,857	41,871
Unrestricted (deficit)	(7,361)	36,253	15,896	44,788
Total net assets (deficit)	\$ (25,123)	\$ 37,643	\$ 43,753	\$ 56,273

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Change in Net Assets
Major Component Units - Discretely Presented Business-type
For the Year Ended June 30, 2006
(in thousands)

Component Units	Expenses	Charges for Services	Operating Grants and Contributions
Houston Convention Center Hotel Corp.	\$ 37,129	\$ 28,831	\$ -
Houston Housing Finance Corp.	2,748	584	13,040
Houston Zoo Inc.	19,521	17,559	21,267
Totals	\$ 59,398	\$ 46,974	\$ 34,307

General Revenues:

Taxes

Property taxes levied for debt service

Unrestricted investment earnings

Other

Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets (deficit) beginning

Net assets (deficit) ending

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Net (Expense) Revenue and Change in Net Assets

Houston Convention Center Hotel Corp.	Houston Housing Finance Corp.	Houston Zoo Inc.	Total
\$ (8,298)	\$ -	\$ -	(8,298)
-	10,876	-	10,876
-	-	19,305	19,305
<u>\$ (8,298)</u>	<u>\$ 10,876</u>	<u>\$ 19,305</u>	<u>\$ 21,883</u>
-	750	-	750
676	1,020	326	2,022
4,215	-	-	4,215
-	-	-	-
<u>4,891</u>	<u>1,770</u>	<u>326</u>	<u>6,987</u>
<u>(3,407)</u>	<u>12,646</u>	<u>19,631</u>	<u>28,870</u>
<u>(21,716)</u>	<u>24,997</u>	<u>24,122</u>	<u>27,403</u>
<u>\$ (25,123)</u>	<u>\$ 37,643</u>	<u>\$ 43,753</u>	<u>\$ 56,273</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

Note 17. Subsequent Events

A. Tax and Revenue Anticipation Notes

On July 6, 2006, the City closed the sale of \$140,000,000 Tax and Revenue Anticipation Notes ("TRANS"), Series 2006. The proceeds of the TRANS will be used to pay working capital expenditures until tax revenues are received in early 2007. The stated interest rate was 4.5%, and the average yield was 3.68%. The notes will mature on June 29, 2007.

B. Combined Utility System Revenue Refunding Bonds

On July 27, 2006 the City closed the sale of \$131,140,000 of Combined Utility System Revenue and Refunding Bonds Series 2006 and 2006A in a private placement to the Texas Water Development Board ("TWDB"). The bonds were issued at rates ranging from 1.85 to 3.75% with an average true interest cost of 3.01%. The bonds are due in varying amounts from 2006 to final maturity on May 15, 2026. A portion of the proceeds were used to currently refund \$35,000,000 outstanding Combined Utility System Commercial Paper Notes which were used to fund projects previously approved by the TWDB. The remaining funds will be used to fund other TWDB approved water and sewer projects and to pay cost of issuance of the bonds.

C. Combined Utility System Constant Maturity Swap

On August 30, 2006 the City priced a constant maturity swap transaction with Goldman Sachs Capital Markets, LP ("Goldman Sachs"). The starting date for the swap is December 3, 2007. Termination date is May 15, 2034. The notional amount is \$249,075,000, and the underlying bonds are a portion of the City's Combined Utility System Series 2004C Auction Rate Bonds. The City will pay 70% of the one-month LIBOR index and receive 64.29% of 10 year LIBOR-SWAP index. With the goal of reducing debt service payments, the City chose to diversify its interest rate exposure by receiving payments based on the longer-term index.

D. Taxable Pension Deferred Interest Certificate

On October 1, 2006 the City elected to defer \$14,525,000 in interest payments on its \$300,000,000 Collateralized Pension Obligation Note, and to allocate such deferred interest to the Uncollateralized Deferred Interest Certificate, as allowed by the ordinance authorizing issuance of the Note. (The City made a partial payment of \$10,975,000 on the \$25,500,000 interest incurred on the Note.) The Deferred Interest Certificate will bear interest at the greater of a) 8.5%, b) the yield on April 1 of each year for the Treasury obligation maturing closest to December 1, 2033, plus a predefined rate adjustment. Under the authorizing ordinance, the City is allowed to defer up to \$150,000,000 in interest on the Note. The agreement requires that these certificates are paid by December 1, 2033.

E. Voter Authorized Obligations

On November 7, 2006 voters of the City authorized the issuance of \$625 million of Public Improvement Bonds.

F. Public Improvement Refunding Bonds

On December 4, 2006 the City closed the sale of \$228,340,000 of Public Improvement Refunding Bonds, Series 2006D, 2006E, 2006F and 2006G. The bonds are due in varying amounts from March 1, 2007 to March 1, 2036. Stated interest rates ranged from 3.875% to 5.0%, and the average yield was 4.37%.

Proceeds of Series 2006D Bonds were used to refund all outstanding General Obligation Commercial Paper Series A and Series B Notes and to pay costs of issuance. Proceeds of Series 2006E Bonds were used to refund \$38 million of General Obligation Commercial Paper Series E Notes and to pay costs of issuance. Proceeds of Series 2006F Bonds were used to refund \$50 million of General Obligation Commercial Paper Series F Notes and to pay costs of issuance. The Series 2006D, 2006E and 2006F Bonds were issued to lock in long term fixed rates rather than to achieve debt service savings.

Proceeds of Series 2006G Bonds were used to refund certain Public Improvement Refunding Bonds Series 1996A and all outstanding assumed annexed district bonds, and to pay costs of issuance. The cash saving of the transaction was \$594,000, and the net present value savings of the transaction was \$526,000, or 4.3%.

G. Taxable Pension Obligation Bonds

On March 1, 2007 the City closed the sale of \$63,800,000 of Taxable Pension Obligation Bonds, Series 2007A. The bonds mature from 2035 to 2037. The stated interest rate and yield were 5.538%.

Proceeds were used to fund \$33 million unfunded actuarial accrued liability of the Houston Municipal Employees Pension System, \$30 million unfunded actuarial accrued liability of the Houston Police Officers Pension System, and to pay costs of issuance.

H. Water and Sewer System Junior Lien Revenue Bonds

On March 7, 2007 the City issued \$3,600,000 of Water and Sewer System Junior Lien Revenue Bonds, Series 2002C. This was the third draw on the Series 2002C bonds; the City issued \$180,000 in 2002 and \$1,965,000 in 2005. The bonds mature in varying amounts from 2013 to 2023. Stated interest rates are 3.05% to 3.75%. Proceeds have been used to fund drinking water projects.

Required Supplementary Information

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2006
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes and assessments				
Property Taxes	\$ 690,246	\$ 690,246	\$ 705,952	\$ 15,706
Industrial Assessments	13,830	13,830	14,314	484
Sales Tax	395,845	395,845	422,598	26,753
Franchise Tax	171,628	171,628	186,508	14,880
Mixed Beverage Tax	8,774	8,774	9,000	226
Bingo Tax	300	300	279	(21)
Hotel Occupancy Tax	-	-	-	-
Total taxes and assessments	<u>1,280,623</u>	<u>1,280,623</u>	<u>1,338,651</u>	<u>58,028</u>
Licenses and permits				
General	12,684	12,684	11,984	(700)
Health Permits	6,389	6,389	6,102	(287)
Total licenses and permits	<u>19,073</u>	<u>19,073</u>	<u>18,086</u>	<u>(987)</u>
Charges for services				
Ambulance service	24,175	24,175	23,283	(892)
Library fees	-	-	-	-
Parking	3,580	3,580	2,724	(856)
Services performed for other funds				
Direct	44,345	44,345	39,498	(4,847)
Indirect	14,887	14,887	14,895	8
Rents and royalties	1,008	1,008	847	(161)
Others	13,699	13,699	14,261	562
Total charges for services	<u>101,694</u>	<u>101,694</u>	<u>95,508</u>	<u>(6,186)</u>
Intergovernmental - grants	27,358	27,358	26,989	(369)
Fines and forfeits				
Municipal Courts	47,806	47,806	45,319	(2,487)
Others	2,768	2,768	3,681	913
Total fines and forfeits	<u>50,574</u>	<u>50,574</u>	<u>49,000</u>	<u>(1,574)</u>
Contributions	1,500	1,500	1,776	276
Interest	6,500	6,500	8,600	2,100
Other				
Sale of Property	3,146	3,146	2,914	(232)
Other	8,118	8,118	12,325	4,207
Total Other	11,264	11,264	15,239	3,975
Total revenues	<u>1,498,586</u>	<u>1,498,586</u>	<u>1,553,849</u>	<u>55,263</u>
Other financing sources (uses)				
Transfers in	1,028	1,028	2,041	1,013
Sale of Land	-	-	6,439	6,439
Other financing sources (uses)	71,000	71,000	62,922	(8,078)
Total other financing sources (uses)	<u>72,028</u>	<u>72,028</u>	<u>71,402</u>	<u>(626)</u>
Total revenues and other financing sources	<u>\$ 1,570,614</u>	<u>\$ 1,570,614</u>	<u>\$ 1,625,251</u>	<u>\$ 54,637</u>

* See note to Required Supplementary Information*

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2006
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
General government				
Legislative and executive				
Legislative - Council				
Personnel services	4,115	4,185	4,143	42
Other current expenditures	383	293	248	45
Equipment acquisition	-	17	13	4
Total legislative - council	<u>4,498</u>	<u>4,495</u>	<u>4,404</u>	<u>91</u>
Legislative - Mayor's Office				
Personnel services	1,736	1,971	1,945	26
Other current expenditures	192	192	168	24
Total executive - mayor's office	<u>1,928</u>	<u>2,163</u>	<u>2,113</u>	<u>50</u>
Total legislative and executive	<u>6,426</u>	<u>6,658</u>	<u>6,517</u>	<u>141</u>
Affirmative Action				
Personnel services	1,537	1,508	1,534	(26)
Other current expenditures	100	129	116	13
Total affirmative action	<u>1,637</u>	<u>1,637</u>	<u>1,650</u>	<u>(13)</u>
Judicial				
Municipal Courts Judges				
Personnel services	4,008	4,001	4,006	(5)
Other current expenditures	276	283	265	18
Total municipal court judges	<u>4,284</u>	<u>4,284</u>	<u>4,271</u>	<u>13</u>
Municipal Courts Administration				
Personnel services	14,948	14,059	14,674	(615)
Other current expenditures	1,830	2,341	2,076	265
Equipment acquisition	2	72	62	10
Total municipal court administration	<u>16,780</u>	<u>16,472</u>	<u>16,812</u>	<u>(340)</u>
Total judicial	<u>21,064</u>	<u>20,756</u>	<u>21,083</u>	<u>(327)</u>
Elections	<u>2,400</u>	<u>2,400</u>	<u>2,294</u>	<u>106</u>
Finance administration				
Controller				
Personnel services	5,092	5,015	4,867	148
Other current expenditures	961	1,038	996	42
Total controller	<u>6,053</u>	<u>6,053</u>	<u>5,863</u>	<u>190</u>
Finance and Administration				
Personnel services	19,138	18,488	17,576	912
Other current expenditures	1,682	2,243	2,139	104
Total finance and administration	<u>20,820</u>	<u>20,731</u>	<u>19,715</u>	<u>1,016</u>
Information Technology				
Personnel services	10,960	10,285	9,613	672
Other current expenditures	1,693	2,128	1,965	163
Equipment acquisition	-	230	229	1
Total information technology	<u>12,653</u>	<u>12,643</u>	<u>11,807</u>	<u>836</u>
Audits	865	865	1,133	(268)
Bond and Legal	1,356	1,356	1,743	(387)
Total finance administration	<u>41,747</u>	<u>41,648</u>	<u>40,261</u>	<u>1,387</u>

See note to required Supplementary Information

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2006
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Legal				
Personnel services	9,995	9,995	9,883	112
Other current expenditures	1,439	1,433	1,173	260
Total legal	<u>11,434</u>	<u>11,428</u>	<u>11,056</u>	<u>372</u>
City Secretary				
Personnel services	614	614	553	61
Other current expenditures	112	112	74	38
Total city secretary	<u>726</u>	<u>726</u>	<u>627</u>	<u>99</u>
Planning and Development				
Personnel services	7,045	6,864	6,433	431
Other current expenditures	372	480	357	123
Equipment acquisition	-	73	49	24
Total planning and development	<u>7,417</u>	<u>7,417</u>	<u>6,839</u>	<u>578</u>
Human Resources				
Personnel services	2,117	2,117	2,190	(73)
Other current expenditures	254	254	215	39
Total human resources	<u>2,371</u>	<u>2,371</u>	<u>2,405</u>	<u>(34)</u>
Total general government	<u>95,222</u>	<u>95,041</u>	<u>92,732</u>	<u>2,309</u>
Public safety				
Police				
Personnel services	508,584	504,532	497,786	6,746
Other current expenditures	33,033	38,059	36,622	1,437
Equipment acquisition	135	463	467	(4)
Total police	<u>541,752</u>	<u>543,054</u>	<u>534,875</u>	<u>8,179</u>
Fire				
Personnel services	305,496	303,796	307,376	(3,580)
Other current expenditures	18,007	19,226	19,493	(267)
Equipment acquisition	-	480	454	26
Total fire	<u>323,503</u>	<u>323,502</u>	<u>327,323</u>	<u>(3,821)</u>
Total public safety	<u>865,255</u>	<u>866,556</u>	<u>862,198</u>	<u>4,358</u>
Public Works				
Administration				
Personnel services	25,823	24,406	24,391	15
Other current expenditures	45,143	54,119	51,137	2,982
Equipment acquisition	-	24	24	-
Total administration	<u>70,966</u>	<u>78,549</u>	<u>75,552</u>	<u>2,997</u>
Building Services				
Personnel services	9,395	9,781	10,343	(562)
Other current expenditures	18,336	26,975	29,004	(2,029)
Equipment acquisition	-	48	29	19
Total building services	<u>27,731</u>	<u>36,804</u>	<u>39,376</u>	<u>(2,572)</u>
Solid Waste				
Personnel services	26,766	26,766	26,920	(154)
Other current expenditures	42,265	39,550	41,492	(1,942)
Equipment acquisition	-	5	5	-
Total solid waste	<u>69,031</u>	<u>66,321</u>	<u>68,417</u>	<u>(2,096)</u>
Total public works	<u>167,728</u>	<u>181,674</u>	<u>183,345</u>	<u>(1,671)</u>

See note to required Supplementary Information

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2006
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Convention and Entertainment				
Personnel services	-	1,582	1,629	(47)
Other current expenditures	-	306	180	126
Equipment acquisition	-	36	16	20
Total convention and entertainment	-	1,924	1,825	99
Health				
Personnel services	37,939	35,553	34,833	720
Other current expenditures	12,841	10,021	8,582	1,439
Equipment acquisition	-	745	436	309
Total health	50,780	46,319	43,851	2,468
Parks and Recreation				
Personnel services	36,678	33,660	34,471	(811)
Other current expenditures	10,934	14,255	14,679	(424)
Equipment acquisition	-	20	11	9
Total parks and recreation	47,612	47,935	49,161	(1,226)
Library				
Personnel services	21,535	22,353	22,409	(56)
Other current expenditures	3,276	2,526	2,472	54
Equipment acquisition	4,830	4,580	4,722	(142)
Total library	29,641	29,459	29,603	(144)
Retiree Benefits				
Hospital and life insurance	49,340	42,875	42,203	672
Total retiree benefits	49,340	42,875	42,203	672
Other current expenditures				
Tax appraisal fees	5,141	5,141	5,045	96
Limited-purpose Annexation Districts	15,686	15,686	17,618	(1,932)
Insurance	1,283	1,556	1,516	40
Claims and judgments	5,000	5,550	6,031	(481)
Membership dues	734	734	592	142
Advertising and promotion	225	225	122	103
Zoo Contract	7,687	7,687	7,687	-
Consultants	233	233	343	(110)
Miscellaneous support services	15,452	9,510	7,816	1,694
Total other current expenditures	51,441	46,322	46,770	(448)
Debt service				
Debt service principal	569	569	569	-
Debt service interest	7,700	6,612	6,592	20
Total debt service	8,269	7,181	7,161	20
Total expenditures	1,365,288	1,365,286	1,358,849	6,437
Other financing sources (uses)				
Transfers out	205,325	205,325	204,897	428
Total other financing sources (uses)	205,325	205,325	204,897	428
Total expenditures and other financing use	\$ 1,570,613	\$ 1,570,611	\$ 1,563,746	\$ 6,865

See note to required Supplementary Information

CITY OF HOUSTON, TEXAS
REQUIRED RECONCILIATION FOR GENERAL FUND
BUDGET vs. GAAP PRESENTATION
For the Year Ended June 30, 2006
amounts expressed in thousands
(unaudited)

Revenues

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 1,553,849
Revenues of non-budgeted funds	
Equipment Acquisition	103
Fleet Maintenance	18,798
Building Security	968
Grant Matching Fund	1,051
Claims and Judgments	5
Fire Training	32
Planning and Development Special Projects	1
Total revenues of non-budgeted funds	<u>20,958</u>
Interest on pooled investments from non-budgeted revenues	1,916
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 1,576,723</u></u>

Expenditures

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 1,358,849
Expenditures of non-budgeted funds	
Equipment Acquisition	103,730
Dangerous building demolition programs	2,833
Fleet Maintenance	24,554
Firefighter's Judgement Bond	31,689
Planning and Development Special Projects	7
Grant Matching Fund	985
Vendor Overpayment	979
Total expenditures of non-budgeted funds	<u>164,777</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 1,523,626</u></u>

Other financing sources (uses)

Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ (133,495)
Proceeds from Issuance of Debt	156,696
Transfers In of non budgeted funds	4,048
Transfers Out of non-budgeted funds	(60)
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances--governmental funds	<u><u>\$ 27,189</u></u>

See note to Required Supplementary Information

CITY OF HOUSTON, TEXAS
REQUIRED NOTES TO THE SUPPLEMENTARY INFORMATION
June 30, 2006
(Unaudited)

1. General Budget Policies

During January of each year, the Mayor, with City Council input, establishes budget guidelines. All departments of the City submit requests for appropriations to the Mayor and the City's Department of Finance and Administration so that a budget may be prepared. Typically during June, the City Controller certifies that funds are available for a continuing appropriation and the budget is proposed to City Council. City Council holds public hearings and a final budget is normally adopted by June 30th. A final appropriation ordinance is adopted later in the fiscal year and may include budget revisions or amendments.

The legal level of budgetary control is the departmental level within each fund, even though the budget is prepared by fund, department, and expenditure category. The Mayor is authorized to transfer unlimited budgeted amounts within departments and amounts between departments, provided such transfers do not exceed 5% of an expenditure category. Expenditure categories are personnel services, other current expenditures and capital outlay. Appropriations related to funds with annual budgets lapse at year-end except for Capital Outlay appropriations, which cover multiple years.

On March 29, 2006, City Council approved the Fiscal Year 2006 general appropriation ordinance in the amount of \$1.571 billion for the General Fund.

Annual operating budgets are adopted for the General Operating Fund, the Debt Service Fund, the Special Revenue Funds (except for the Grants Revenue Fund, Disaster Recovery, Health Special Fund and the Housing Special Fund) and the Proprietary Funds. The budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Budgets for proprietary funds are prepared on the accrual basis, but focus on expenses relating to maintenance and operations, and equipment purchases and, accordingly, exclude depreciation and other allocations related to income determination.

The following provides actual fiscal year 2006 results for both budgeted and non-budgeted Special Revenue Funds (in thousands):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Sources (Uses)</u>
Budgeted Special Revenue Funds	\$ 69,696	\$ 111,176	\$ 40,683
Non-budgeted Disaster Recovery Fund	930	5	(4,000)
Non-budgeted Grants Revenue Fund	415,627	415,342	8,987
Non-budgeted Health and Housing	1,026	864	-
Non-budgeted Other Funds	7,750	5,226	(48)
Total Special Revenue Funds - Actual	<u>\$ 495,029</u>	<u>\$ 532,613</u>	<u>\$ 45,622</u>

2. General Fund Budgetary Highlights

While revenues were only \$55 million above budget (pgs. 113-116), there were some significant differences between some of the budgeted and actual revenue numbers. Some of the increases/decreases from budget include:

- \$58 million increase in taxes and assessments
- \$1 million decrease in licenses and permits
- \$6.1 million decrease in charges for services
- \$1.6 million decrease in fines and forfeits
- \$2.1 million increase in interest
- \$4 million increase in other revenues

Budgeted expenditures remained relatively unchanged during the fiscal year. The most significant changes in the budget were:

- \$1.3 million increase for public safety
- \$14 million increase for public works
- \$1.9 million increase for convention and entertainment
- \$4.5 million decrease for health
- \$6.5 million decrease for retiree benefits
- \$5.9 million decrease for miscellaneous support services

Public Works was \$2 million over budget, mainly due to increased electricity costs. Ultimately, total expenditures for the General Fund were in line with the final expenditure budget.

**CITY OF HOUSTON, TEXAS
REQUIRED PENSION SYSTEM
SUPPLEMENTARY INFORMATION
June 30, 2006**

**Houston Firefighters' Pension System Supplementary Information (unaudited)
Schedule of Funding Progress (in millions)
(unaudited)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1997	\$1,183.8	\$1,128.2	(\$55.6)	105%	\$142.0	(39%)
July 1, 1998	\$1,347.4	\$1,271.4	(\$76.0)	106%	\$149.0	(51%)
July 1, 1999	\$1,538.5	\$1,470.6	(\$67.9)	105%	\$159.0	(43%)
July 1, 2000	\$1,726.3	\$1,589.3	(\$137.0)	109%	\$163.6	(84%)
July 1, 2001	\$1,863.1	\$1,650.8	(\$212.3)	113%	\$164.3	(129%)
July 1, 2002*	\$1,922.4	\$1,970.1	\$47.7	98%	\$190.6	25%
July 1, 2004	\$2,000.3	\$2,266.8	\$266.5	88%	\$181.5	147%
July 1, 2005	\$2,119.2	\$2,461.1	\$341.9	86%	\$192.1	178%

* No actuarial study was required or conducted for July 1, 2003.

**Houston Municipal Pension System Supplementary Information (unaudited)
Schedule of Funding Progress (millions)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1998	\$1,095.6	\$1,240.1	\$144.5	88%	\$397.7	36%
July 1, 1999	\$1,222.2	\$1,339.9	\$117.7	91%	\$407.7	29%
July 1, 2000	\$1,376.0	\$1,509.4	\$133.4	91%	\$432.6	31%
July 1, 2001	\$1,490.2	\$1,955.8	\$465.6	76%	\$418.0	111%
July 1, 2002	\$1,519.7	\$2,515.2	\$995.5	60%	\$399.8	249%
July 1, 2003	\$1,510.3	\$3,278.3	\$1,768.0	46%	\$390.3	453%
July 1, 2004	\$1,501.2	\$2,633.8	\$1,132.6	57%	\$366.1	309%
July 1, 2005	\$1,777.7	\$2,725.3	\$947.6	65%	\$404.6	234%

**Houston Police Officer's Pension System Supplementary Information (unaudited)
Schedule of Funding Progress (millions)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1998	\$1,518.1	\$1,549.3	\$31.2	98%	\$196.4	16%
July 1, 1999	\$1,746.3	\$1,773.8	\$27.5	98%	\$246.6	11%
July 1, 2000	\$2,013.5	\$1,966.4	(\$47.1)	102%	\$250.7	(19%)
July 1, 2001	\$2,226.3	\$2,306.4	\$80.1	97%	\$264.2	30%
July 1, 2002	\$2,337.1	\$2,593.7	\$256.6	90%	\$286.1	90%
July 1, 2003	\$2,394.4	\$2,874.7	\$480.3	83%	\$300.4	160%
July 1, 2004	\$2,466.0	\$3,339.2	\$873.2	74%	\$329.8	265%
July 1, 2005	\$2,508.8	\$3,393.0	\$884.2	74%	\$321.1	275%

CITY OF HOUSTON, TEXAS



Governmental Funds

General Fund - The General Fund is used to account for sources and uses of financial resources applicable to the general government operation of the City. All general operating revenues and expenditures that are not restricted and, therefore, accounted for in another fund, are recorded in the General Fund.

Debt Service Fund - The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt other than debt issued for and serviced by Enterprise Funds.

Capital Projects Fund - The Capital Projects Fund accounts for all resources used for the acquisition and/or construction of capital facilities by the City, except those financed by Enterprise Funds.

Grants Fund - The Grants Fund is used to account for grant resources received from various local, state and national agencies and organizations. The use of these resources is restricted to a particular function of the city by the grantor.

Nonmajor Funds - Nonmajor Funds did not meet the established criteria for major fund status. They are used to account for the proceeds of specific revenue sources (other than capital projects) that are restricted to expenditures for special purposes. All Nonmajor Funds have been presented; however only certain sub-funds have legally adopted budgets. Nonmajor funds are:

- Public Safety Special Fund
 - Budgeted: Asset Forfeiture, Auto Dealers, Police Special Services and Houston Emergency Center, Municipal Courts Technology Fee and Child Safety
 - Not budgeted: Helmets for Bicycle Safety
- Public Works Special Fund
 - Budgeted: Building Inspection, Sign Administration, Stormwater and Signal Maintenance
 - Not budgeted: Sign Abatement and Street Maintenance and Traffic Control
- Health and Housing Special Fund
 - Not budgeted: Health Special, Housing Special, Homeless Families Program and Housing Replacement Insurance, Housing Non-Grant Venture and HJTPC Self Insurance
- Parks & Recreation Special Fund
 - Budgeted: Parks Special
 - Not budgeted: MacGregor Parks Endowment
- Other Special Revenue Fund
 - Budgeted: Cable Television, Houston Transtar and Supplemental Environmental Project
 - Not budgeted: Disaster Recovery, Compaq Center, MNC Memorial City Way, W.A.T.E.R., Special City Deposit, John Battaglia Trust, Inc. Fund, AAA Contingency, Houston Foundation and March of Dimes

CITY OF HOUSTON, TEXAS
GENERAL FUND
Balance Sheet
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Assets		
Equity in pooled cash and investments	\$ 206,483	\$ 111,743
Receivables, net of allowances		
Accounts receivable	17,224	31,332
Property taxes receivable, net	53,326	59,371
Sales taxes receivable	78,027	64,464
Mixed beverage taxes receivable	2,455	2,224
Franchise taxes receivable	16,889	34,238
Special assessments receivable	33,875	9,823
Due from other funds	22,355	6,352
Due from other governments	11,609	3,297
Inventory	20,472	19,143
Prepaid items	1,589	1,570
Total assets	<u>\$ 464,304</u>	<u>\$ 343,557</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	47,259	24,758
Accrued payroll liabilities	36,347	26,539
Accrued interest payable	-	-
Contracts and retainages payable	199	217
Notes payable		
Due to other funds	3,247	12,526
Due to component units	-	-
Due to other governments	12,574	10,990
Advances and deposits	7,403	5,282
Claims for workers' compensation		
Claims and judgments	2,550	2,084
Compensated absences	2,606	3,038
Other liabilities - current	220	-
Unearned revenue	101,469	87,979
Total liabilities	<u>213,874</u>	<u>173,413</u>
Fund balance		
Reserved for imprest cash and prepaids	1,696	1,691
Reserved for equipment acquisitions and other capital outlay	29,503	6,615
Reserved for inventory	20,472	19,143
Unreserved fund balance		
Designated - Sign abatement	2,150	2,125
Designated - Rainy day fund	20,775	20,528
Undesignated	175,834	120,042
Total fund balance	<u>250,430</u>	<u>170,144</u>
Total liabilities and fund balance	<u>\$ 464,304</u>	<u>\$ 343,557</u>

CITY OF HOUSTON, TEXAS
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Revenues		
Taxes and assessments		
Property Taxes	\$ 705,952	\$ 671,294
Industrial Assessments	14,314	14,635
Sales Tax	422,598	370,583
Franchise Tax	186,508	162,263
Mixed Beverage Tax	9,000	8,343
Bingo Tax	279	270
Licenses and permits	18,086	17,692
Charges for services	114,308	120,181
Intergovernmental - grants	29,816	19,993
Fines and forfeits	49,000	51,251
Contributions	-	1,780
Investment income	10,516	6,541
Other	16,346	15,938
Total revenues	<u>1,576,723</u>	<u>1,460,764</u>
Expenditures		
Current		
General government	114,453	105,091
Public safety	916,560	835,130
Public works	210,409	196,413
Health	46,230	50,311
Parks and recreation	49,161	47,592
Library	31,578	33,222
Retiree benefits	42,203	28,997
Capital outlay	55,187	37,163
Debt service principal	51,254	1,090
Debt service interest	6,591	6,443
Total expenditures	<u>1,523,626</u>	<u>1,341,452</u>
Other financing sources (uses)		
Proceeds from issuance of debt	219,618	111,205
Sale of Land	6,439	-
Transfers in	6,089	1,029
Transfers out	(204,957)	(197,127)
Total other financing sources (uses)	<u>27,189</u>	<u>(84,893)</u>
Change in fund balance	80,286	34,419
Fund balances, July 1	<u>170,144</u>	<u>135,725</u>
Fund balances, June 30	<u><u>\$ 250,430</u></u>	<u><u>\$ 170,144</u></u>

CITY OF HOUSTON, TEXAS
DEBT SERVICE FUND
Balance Sheet
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Assets		
Equity in pooled cash and investments	\$ 112,905	\$ 108,008
Due from component units	5,504	5,355
Total assets	\$ 118,409	\$ 113,363
 Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 2,081	\$ 755
Due to other funds	-	389
Unearned revenue	5,504	5,355
Total liabilities	7,585	6,499
 Fund balance		
Reserved for debt service	110,824	106,864
Total fund balance	110,824	106,864
Total liabilities and fund balance	\$ 118,409	\$ 113,363

CITY OF HOUSTON, TEXAS
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget vs. Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Investment income	\$ 2,743	\$ 3,000	\$ 3,399	\$ 399	\$ 2,458
Other	0	500	3,010	2,510	1,203
Total revenues	2,743	3,500	6,409	2,909	3,661
Expenditures					
Current					
Debt service principal	160,425	169,500	169,256	244	138,517
Debt service interest	86,373	106,500	106,965	(465)	87,745
Debt service fiscal agent & fees	3,400	7,130	6,302	828	3,316
Total expenditures	250,198	283,130	282,523	607	229,578
Other financing sources (uses)					
Net proceeds from issuance of debt	-	-	1,416	1,416	1,837
Proceeds from refunded debt	-	-	169,230	169,230	173,062
Proceeds from bond premium	-	-	16,912	16,912	10,546
Transfers in	250,761	264,000	274,168	10,168	239,128
Payment to escrow agent for refunded bonds	-	-	(181,652)	(181,652)	(183,566)
Total other financing sources (uses)	250,761	264,000	280,074	16,074	241,007
Change in fund balance	3,306	(15,630)	3,960	19,590	15,090
Fund balances, July 1	96,203	106,864	106,864	-	91,774
Fund balances, June 30	\$ 99,509	\$ 91,234	\$ 110,824	\$ 19,590	\$ 106,864

CITY OF HOUSTON, TEXAS
CAPITAL PROJECTS FUND
Balance Sheet
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Assets		
Equity in pooled cash and investments	\$ 97,568	\$ 112,233
Receivables, net of allowances		
Accounts receivable	1,070	1,298
Due from other funds	470	2,403
Due from other governments	25,993	10,060
Total assets	\$ 125,101	\$ 125,994
Liabilities and fund balance		
Liabilities		
Accounts payable	14	1,462
Contracts and retainages payable	36,660	22,147
Due to other funds	-	834
Advances and deposits	28	19
Unearned revenue	22,153	10,993
Total liabilities	58,855	35,455
Fund balance		
Reserved fund balance	66,246	90,539
Total fund balance	66,246	90,539
Total liabilities and fund balance	\$ 125,101	\$ 125,994

CITY OF HOUSTON, TEXAS
CAPITAL PROJECTS FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006	2005
Revenues		
Intergovernmental - grants	\$ 50,211	\$ 20,095
Investment income	2,959	2,063
Other	1,674	1,421
Total revenues	54,844	23,579
Expenditures		
Current		
General government	118,754	49,697
Public safety	24,971	24,803
Public works	64,329	64,915
Parks and recreation	21,295	12,105
Library	5,747	3,143
Total expenditures	235,096	154,663
Other financing sources (uses)		
Proceeds from issuance of debt	208,425	160,000
Transfers in	7,300	352
Transfers out	(59,766)	(13,984)
Total other financing sources (uses)	155,959	146,368
Change in fund balance	(24,293)	15,284
Fund balances, July 1	90,539	75,255
Fund balances, June 30	\$ 66,246	\$ 90,539

CITY OF HOUSTON, TEXAS
GRANTS FUND
Balance Sheet
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Assets		
Equity in pooled cash and investments	\$ 49,698	\$ 770
Receivables, net of allowances		
Accounts receivable	25,831	13,491
Due from other funds	-	126
Due from component units	8,243	-
Due from other governments	52,314	24,795
Inventory	862	693
Total assets	<u>136,948</u>	<u>39,875</u>
 Liabilities and fund balance		
Liabilities		
Accounts payable	44,280	5,251
Accrued payroll liabilities	810	1,312
Contracts and retainages payable	621	1,558
Due to other funds	22,355	2,533
Advances and deposits	317	-
Compensated absences	66	144
Other liabilities	-	186
Unearned revenue	56,349	25,923
Total liabilities	<u>124,798</u>	<u>36,907</u>
 Fund balance		
Reserved for inventory	862	693
Reserved for debt service	1,325	2,275
Unreserved	9,963	-
Total fund balance	<u>12,150</u>	<u>2,968</u>
 Total liabilities and fund balance	 <u>\$ 136,948</u>	 <u>\$ 39,875</u>

CITY OF HOUSTON, TEXAS
GRANTS FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Revenues		
Intergovernmental - grants	\$ 414,800	\$ 142,960
Investment income	827	400
Total revenues	<u>415,627</u>	<u>143,360</u>
Expenditures		
Current		
Public safety	35,320	18,332
Public works	1,163	2,771
Health	50,776	53,642
Housing and Community Development	322,661	55,773
Parks and recreation	3,267	5,259
Library	2,245	2,908
Total expenditures	<u>415,432</u>	<u>138,685</u>
Other financing sources (uses)		
Transfers in	10,000	575
Transfers out	(1,013)	(6,502)
Total other financing sources (uses)	<u>8,987</u>	<u>(5,927)</u>
Change in fund balance	9,182	(1,252)
Fund balances, July 1	<u>2,968</u>	<u>4,220</u>
Fund balances, June 30	<u>\$ 12,150</u>	<u>\$ 2,968</u>

CITY OF HOUSTON, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	<i>Nonmajor Funds</i>	
	Public Safety Special Fund	Public Works Special Fund
Assets		
Equity in pooled cash and investments	\$ 17,167	\$ 13,405
Receivables, net of allowances		
Accounts receivable	89	39
Due from other funds	-	224
Due from other governments	1,649	-
Inventory	-	-
Total assets	\$ 18,905	\$ 13,668
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 3,235	\$ 2,564
Accrued payroll liabilities	284	819
Contracts and retainages payable	-	176
Due to other funds	-	-
Due to other governments	-	-
Advances and deposits	380	851
Compensated absences	36	40
Other liabilities	-	2
Unearned revenue	1,374	-
Total liabilities	5,309	4,452
Fund balance		
Reserved for inventory	-	-
Unreserved fund balance		
Undesignated	13,596	9,216
Total fund balance	13,596	9,216
Total liabilities and fund balance	\$ 18,905	\$ 13,668

(Continued)

Nonmajor Funds

Health & Housing Special Fund	Parks & Recreation Special Fund	Other Special Revenue Fund	2006	2005
\$ 3,021	\$ 3,405	\$ 38,856	\$ 75,854	\$ 74,453
140	186	2,164	2,618	1,495
-	-	-	224	2,722
-	-	-	1,649	1,092
-	10	-	10	3
<u>\$ 3,161</u>	<u>\$ 3,601</u>	<u>\$ 41,020</u>	<u>\$ 80,355</u>	<u>\$ 79,765</u>
\$ 8	\$ 383	\$ 1,223	\$ 7,413	\$ 4,191
3	36	19	1,161	573
9	-	14	199	475
-	-	-	-	2,650
-	10	-	10	12
7	36	821	2,095	3,377
-	-	-	76	7
-	-	1	3	121
-	137	1,470	2,981	665
<u>27</u>	<u>602</u>	<u>3,548</u>	<u>13,938</u>	<u>12,071</u>
-	10	-	10	3
<u>3,134</u>	<u>2,989</u>	<u>37,472</u>	<u>66,407</u>	<u>67,691</u>
<u>3,134</u>	<u>2,999</u>	<u>37,472</u>	<u>66,417</u>	<u>67,694</u>
<u>\$ 3,161</u>	<u>\$ 3,601</u>	<u>\$ 41,020</u>	<u>\$ 80,355</u>	<u>\$ 79,765</u>

CITY OF HOUSTON, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	<i>Nonmajor Funds</i>		
	Public Safety Special Fund	Public Works Special Fund	Health & Housing Special Fund
Revenues			
Licenses and permits	\$ 1,326	\$ 22,822	\$ 140
Charges for services	7,304	4,903	
Intergovernmental - grants	15,689	-	
Fines and forfeits	2,429	12	
Investment income	637	236	99
Other	3,761	268	787
Total revenues	<u>31,146</u>	<u>28,241</u>	<u>1,026</u>
Expenditures			
Current			
General government			
Public safety	35,896		
Public works	-	59,697	
Health	-	-	231
Housing and community development	-	-	538
Parks and recreation	-	-	
Capital outlay	1,943	4,100	95
Total expenditures	<u>37,839</u>	<u>63,797</u>	<u>864</u>
Other financing sources (uses)			
Net proceeds from issuance of debt	1,000	3,029	
Transfers in	8,270	31,300	
Transfers out	(1,372)	(1,326)	
Total other financing sources (uses)	<u>7,898</u>	<u>33,003</u>	<u>-</u>
Change in fund balance	1,205	(2,553)	162
Fund balances, July 1	<u>12,391</u>	<u>11,769</u>	<u>2,972</u>
Fund balances, June 30	<u>\$ 13,596</u>	<u>\$ 9,216</u>	<u>\$ 3,134</u>

(Continued)

Nonmajor Funds

Parks & Recreation Special Fund	Other Special Revenue Fund	2006	2005
\$ 150	\$ -	\$ 24,438	\$ 22,548
6,170	476	18,853	36,109
-	1,763	17,452	4,324
-	-	2,441	2,213
92	1,124	2,188	1,717
95	9,030	13,941	11,883
<u>6,507</u>	<u>12,393</u>	<u>79,313</u>	<u>78,794</u>
-	8,565	8,565	8,950
-	-	35,896	28,936
-	-	59,697	52,329
-	-	231	436
-	-	538	1,303
5,879	-	5,879	5,764
-	281	6,419	2,233
<u>5,879</u>	<u>8,846</u>	<u>117,225</u>	<u>99,951</u>
-	26	4,055	1,679
-	-	39,570	37,659
<u>(292)</u>	<u>(4,000)</u>	<u>(6,990)</u>	<u>(6,250)</u>
<u>(292)</u>	<u>(3,974)</u>	<u>36,635</u>	<u>33,088</u>
336	(427)	(1,277)	11,931
<u>2,663</u>	<u>37,899</u>	<u>67,694</u>	<u>55,763</u>
<u>\$ 2,999</u>	<u>\$ 37,472</u>	<u>\$ 66,417</u>	<u>\$ 67,694</u>

CITY OF HOUSTON, TEXAS
ASSET FORFEITURE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Confiscations	\$ 3,981	\$ 3,981	\$ 6,844	\$ 2,863	\$ 4,237
Investment income	19	19	164	145	38
Total revenues	<u>4,000</u>	<u>4,000</u>	<u>7,008</u>	<u>3,008</u>	<u>4,275</u>
Expenditures					
Public safety	3,800	3,550	3,060	490	2,386
Capital outlay	200	1,650	207	1,443	69
Total expenditures	<u>4,000</u>	<u>5,200</u>	<u>3,267</u>	<u>1,933</u>	<u>2,455</u>
Change in fund balance	-	(1,200)	3,741	4,941	1,820
Fund balances, July 1	<u>2,489</u>	<u>2,489</u>	<u>2,489</u>	<u>-</u>	<u>669</u>
Fund balances, June 30	<u><u>\$ 2,489</u></u>	<u><u>\$ 1,289</u></u>	<u><u>\$ 6,230</u></u>	<u><u>\$ 4,941</u></u>	<u><u>\$ 2,489</u></u>

CITY OF HOUSTON, TEXAS
AUTO DEALERS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Licenses and permits	\$ 1,920	\$ 1,920	\$ 1,595	\$ (325)	\$ 805
Charges for services	594	595	407	(188)	1,084
Investment income	55	55	49	(6)	63
Other	1,350	1,350	1,747	397	1,354
Total revenues	<u>3,919</u>	<u>3,920</u>	<u>3,798</u>	<u>(122)</u>	<u>3,306</u>
Expenditures					
Public safety	4,389	3,209	2,695	514	2,764
Capital outlay	-	80	79	1	6
Total expenditures	<u>4,389</u>	<u>3,289</u>	<u>2,774</u>	<u>515</u>	<u>2,770</u>
Other financing sources (uses)					
Net proceeds from issuance	-	-	-	-	91
Transfers out	-	(1,100)	(1,028)	72	-
Total other financing sources (uses)	<u>-</u>	<u>(1,100)</u>	<u>(1,028)</u>	<u>72</u>	<u>91</u>
Change in fund balance	(470)	(469)	(4)	465	627
Fund balances, July 1	<u>841</u>	<u>841</u>	<u>841</u>	<u>-</u>	<u>214</u>
Fund balances, June 30	<u>\$ 371</u>	<u>\$ 372</u>	<u>\$ 837</u>	<u>\$ 465</u>	<u>\$ 841</u>

CITY OF HOUSTON, TEXAS
BUILDING INSPECTION FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	<u>2006</u>		<u>Actual</u>	<u>Variance with Final Budget- Pos (Neg)</u>	<u>2005 Actual</u>
	<u>Budget Amounts</u>				
	<u>Original</u>	<u>Final</u>			
Revenues					
Taxes and assessments					
Licenses and permits	\$ 20,430	\$ 20,430	\$ 20,734	\$ 304	\$ 19,067
Charges for services	3,228	3,228	4,910	1,682	3,591
Investment income	229	229	145	(84)	166
Other	2,275	2,275	15	(2,260)	52
Total revenues	<u>26,162</u>	<u>26,162</u>	<u>25,804</u>	<u>(358)</u>	<u>22,876</u>
Expenditures					
Public works	28,696	28,105	27,492	613	22,199
Capital outlay	1,593	1,451	803	648	1,261
Total expenditures	<u>30,289</u>	<u>29,556</u>	<u>28,295</u>	<u>1,261</u>	<u>23,460</u>
Other financing sources (uses)					
Net proceeds from issuance	2,000	2,000	2,029	29	567
Transfers out	(117)	(733)	(733)	-	-
Total other financing sources (uses)	<u>1,883</u>	<u>1,267</u>	<u>1,296</u>	<u>29</u>	<u>567</u>
Change in fund balance	(2,244)	(2,127)	(1,195)	932	(17)
Fund balances, July 1	<u>6,167</u>	<u>6,167</u>	<u>6,167</u>	<u>-</u>	<u>6,184</u>
Fund balances, June 30	<u>\$ 3,923</u>	<u>\$ 4,040</u>	<u>\$ 4,972</u>	<u>\$ 932</u>	<u>\$ 6,167</u>

CITY OF HOUSTON, TEXAS
CABLE TELEVISION FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Charges for services	\$ 1,793	\$ 1,793	\$ 1,956	\$ 163	\$ 1,830
Investment income	13	13	13	-	7
Other	4	4	4	-	4
Total revenues	<u>1,810</u>	<u>1,810</u>	<u>1,973</u>	<u>163</u>	<u>1,841</u>
Expenditures					
Current					
General government	1,784	1,739	1,820	(81)	1,629
Capital outlay	120	165	148	17	19
Total expenditures	<u>1,904</u>	<u>1,904</u>	<u>1,968</u>	<u>(64)</u>	<u>1,648</u>
Other financing sources (uses)					
Net proceeds from refunded debt	-	-	-	-	19
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>
Change in fund balance	(94)	(94)	5	99	212
Fund balances, July 1	<u>677</u>	<u>677</u>	<u>677</u>	<u>-</u>	<u>465</u>
Fund balances, June 30	<u>\$ 583</u>	<u>\$ 583</u>	<u>\$ 682</u>	<u>\$ 99</u>	<u>\$ 677</u>

CITY OF HOUSTON, TEXAS
CHILD SAFETY FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Fines and forfeits	\$ 1,300	\$ 1,300	\$ 2,186	\$ 886	\$ 2,138
Interest	45	45	50	5	27
Other	2,040	2,040	902	(1,138)	1,128
Total revenues	<u>3,385</u>	<u>3,385</u>	<u>3,138</u>	<u>(247)</u>	<u>3,293</u>
Expenditures					
Current					
General government	3,385	3,385	3,148	237	3,842
Total expenditures	<u>3,385</u>	<u>3,385</u>	<u>3,148</u>	<u>237</u>	<u>3,842</u>
Change in fund balance	-	-	(10)	(10)	(549)
Fund balances, July 1	(2)	(2)	(2)	-	547
Fund balances, June 30	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (12)</u>	<u>\$ (10)</u>	<u>\$ (2)</u>

CITY OF HOUSTON, TEXAS
HOUSTON TRANSTAR FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Charges for services	\$ 477	\$ 477	\$ 478	\$ 1	\$ 458
Intergovernmental - grants	1220	1,220	1,237	17	1,237
Investment income	9	9	11	2	11
Total revenues	<u>1,706</u>	<u>1,706</u>	<u>1,726</u>	<u>20</u>	<u>1,706</u>
Expenditures					
General government	1,635	1,635	1,555	80	1,611
Capital outlay	100	100	92	8	-
Total expenditures	<u>1,735</u>	<u>1,735</u>	<u>1,647</u>	<u>88</u>	<u>1,611</u>
Other financing sources (uses)					
Net proceeds from refunded debt	-	-	26	26	14
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>26</u>	<u>26</u>	<u>14</u>
Change in fund balance	(29)	(29)	105	134	109
Fund balances, July 1	<u>133</u>	<u>133</u>	<u>133</u>	<u>-</u>	<u>24</u>
Fund balances, June 30	<u>\$ 104</u>	<u>\$ 104</u>	<u>\$ 238</u>	<u>\$ 134</u>	<u>\$ 133</u>

CITY OF HOUSTON, TEXAS
MUNICIPAL COURTS TECHNOLOGY FEE
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Interest	\$ -	\$ -	\$ 143	\$ 143	\$ 96
Other	1,431	1,431	1,570	139	1,737
Total revenues	<u>1,431</u>	<u>1,431</u>	<u>1,713</u>	<u>282</u>	<u>1,833</u>
Expenditures					
Public safety	1,423	2,248	2,096	152	9
Capital outlay	655	830	780	50	171
Total expenditures	<u>2,078</u>	<u>3,078</u>	<u>2,876</u>	<u>202</u>	<u>180</u>
Other financing sources (uses)					
Operating transfers out	(400)	(400)	(344)	56	(236)
Total other financing sources (uses)	<u>(400)</u>	<u>(400)</u>	<u>(344)</u>	<u>56</u>	<u>(236)</u>
Change in fund balance	(1,047)	(2,047)	(1,507)	540	1,417
Fund balances, July 1	4,525	4,525	4,525	-	3,108
Fund balances, June 30	<u>\$ 3,478</u>	<u>\$ 2,478</u>	<u>\$ 3,018</u>	<u>\$ 540</u>	<u>\$ 4,525</u>

CITY OF HOUSTON, TEXAS
PARKS SPECIAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Licenses and permits	\$ 96	\$ 96	\$ 150	\$ 54	\$ 116
Charges for services	5,895	5,895	6,170	275	5,890
Investment income	60	60	88	28	64
Other	113	113	95	(18)	178
Total revenues	<u>6,164</u>	<u>6,164</u>	<u>6,503</u>	<u>339</u>	<u>6,248</u>
Expenditures					
Parks and recreation	6,188	6,333	5,879	454	5,765
Capital outlay	231	231	-	231	-
Total expenditures	<u>6,419</u>	<u>6,564</u>	<u>5,879</u>	<u>685</u>	<u>5,765</u>
Other financing sources (uses)					
Net proceeds from issuance	-	-	-	-	97
Transfers out	(350)	(350)	(292)	58	-
Total other financing sources (uses)	<u>(350)</u>	<u>(350)</u>	<u>(292)</u>	<u>58</u>	<u>97</u>
Change in fund balance	(605)	(750)	332	1,082	580
Fund balances, July 1	<u>2,547</u>	<u>2,547</u>	<u>2,547</u>	<u>-</u>	<u>1,967</u>
Fund balances, June 30	<u>\$ 1,942</u>	<u>\$ 1,797</u>	<u>\$ 2,879</u>	<u>\$ 1,082</u>	<u>\$ 2,547</u>

CITY OF HOUSTON, TEXAS
POLICE SPECIAL SERVICES FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Charges for services	\$ 10,002	\$ 10,002	\$ 6,662	\$ (3,340)	\$ 7,485
Intergovernmental - grants	872	872	2,098	1,226	406
Investment income	120	120	230	110	130
Other	86	121	(458)	(579)	245
Total revenues	<u>11,080</u>	<u>11,115</u>	<u>8,532</u>	<u>(2,583)</u>	<u>8,266</u>
Expenditures					
Public safety	12,944	12,936	9,340	3,596	6,152
Capital outlay	1,349	1,357	837	520	346
Total expenditures	<u>14,293</u>	<u>14,293</u>	<u>10,177</u>	<u>4,116</u>	<u>6,498</u>
Other financing sources (uses)					
Net proceeds from issuance	-	-	-	-	5
Transfers in	500	500	-	(500)	-
Transfers out	(577)	(577)	-	577	(2,480)
Total other financing sources (uses)	<u>(77)</u>	<u>(77)</u>	<u>-</u>	<u>77</u>	<u>(2,475)</u>
Change in fund balance	(3,290)	(3,255)	(1,645)	1,610	(707)
Fund balances, July 1	<u>4,515</u>	<u>4,515</u>	<u>4,515</u>	<u>-</u>	<u>5,222</u>
Fund balances, June 30	<u>\$ 1,225</u>	<u>\$ 1,260</u>	<u>\$ 2,870</u>	<u>\$ 1,610</u>	<u>\$ 4,515</u>

CITY OF HOUSTON, TEXAS
SIGN ADMINISTRATION FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Licenses and permits	\$ 1,830	\$ 1,830	\$ 2,089	\$ 259	\$ 1,847
Investment income	38	38	56	18	41
Other	3	3	9	6	-
Total revenues	<u>1,871</u>	<u>1,871</u>	<u>2,154</u>	<u>283</u>	<u>1,888</u>
Expenditures					
Public works	2,289	2,289	1,959	330	1,660
Capital outlay	259	259	190	69	117
Total expenditures	<u>2,548</u>	<u>2,548</u>	<u>2,149</u>	<u>399</u>	<u>1,777</u>
Other financing sources (uses)					
Net proceeds from issuance	-	-	-	-	53
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53</u>
Change in fund balance	(677)	(677)	5	682	164
Fund balances, July 1	<u>1,478</u>	<u>1,478</u>	<u>1,478</u>	<u>-</u>	<u>1,314</u>
Fund balances, June 30	<u>\$ 801</u>	<u>\$ 801</u>	<u>\$ 1,483</u>	<u>\$ 682</u>	<u>\$ 1,478</u>

CITY OF HOUSTON, TEXAS
STORMWATER FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Investment income	\$ 100	\$ 100	\$ 35	\$ (65)	\$ 106
Other	50	50	248	198	45
Total revenues	<u>150</u>	<u>150</u>	<u>283</u>	<u>133</u>	<u>151</u>
Expenditures					
Public works	32,786	31,704	30,207	1,497	28,128
Capital outlay	2,445	2,982	3,107	(125)	123
Total expenditures	<u>35,231</u>	<u>34,686</u>	<u>33,314</u>	<u>1,372</u>	<u>28,251</u>
Other financing sources (uses)					
Net proceeds from issuance	1,000	1,000	1,000	-	436
Transfers in	31,300	31,300	31,300	-	30,000
Transfers out	-	(545)	(545)	-	-
Total other financing sources (uses)	<u>32,300</u>	<u>31,755</u>	<u>31,755</u>	<u>-</u>	<u>30,436</u>
Change in fund balance	(2,781)	(2,781)	(1,276)	1,505	2,336
Fund balances, July 1	<u>4,038</u>	<u>4,038</u>	<u>4,038</u>	<u>-</u>	<u>1,702</u>
Fund balances, June 30	<u>\$ 1,257</u>	<u>\$ 1,257</u>	<u>\$ 2,762</u>	<u>\$ 1,505</u>	<u>\$ 4,038</u>

CITY OF HOUSTON, TEXAS
HOUSTON EMERGENCY CENTER FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006		Actual	Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts				
	Original	Final			
Revenues					
Charges for services	\$ 702	\$ 702	\$ 209	\$ (493)	\$ 5,910
Intergovernmental - grants	8,431	8,431	6,747	(1,684)	-
Total revenues	<u>9,133</u>	<u>9,133</u>	<u>6,956</u>	<u>(2,177)</u>	<u>5,910</u>
Expenditures					
Public safety	19,073	19,073	15,557	3,516	13,952
Capital outlay	278	278	39	239	-
Total expenditures	<u>19,351</u>	<u>19,351</u>	<u>15,596</u>	<u>3,755</u>	<u>13,952</u>
Other financing sources (uses)					
Net proceeds from issuance	1,000	1,000	1,000	-	383
Transfers in	8,270	8,270	8,270	-	7,659
Total other financing sources (uses)	<u>9,270</u>	<u>9,270</u>	<u>9,270</u>	<u>-</u>	<u>8,042</u>
Change in fund balance	(948)	(948)	630	1,578	-
Fund balances, July 1	-	-	-	-	-
Fund balances, June 30	<u>\$ (948)</u>	<u>\$ (948)</u>	<u>\$ 630</u>	<u>\$ 1,578</u>	<u>\$ -</u>

CITY OF HOUSTON, TEXAS
SUPPLEMENTAL ENVIRONMENTAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	2006			Variance with Final Budget- Pos (Neg)	2005 Actual
	Budget Amounts		Actual		
	Original	Final			
Revenues					
Investment income	\$ -	\$ -	\$ 18	18	10
Other	15	15	90	75	535
Total revenues	15	15	108	93	545
Expenditures					
General government	120	358	45	313	48
Capital outlay	60	100	41	59	-
Total expenditures	180	458	86	372	48
Change in fund balance	(165)	(443)	22	465	497
Fund balances, July 1	524	524	524	-	27
Fund balances, June 30	\$ 359	\$ 81	\$ 546	\$ 465	\$ 524

Enterprise Funds

Enterprise funds are established to account for City operations that are financed and operated in a manner similar to private business enterprises where the cost of providing goods or services to the general public is financed primarily through user charges.

Airport System — This fund is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Field.

Convention and Entertainment Facilities — This fund is used to account for the operation of the City's four major entertainment centers and two City-owned parking garages. These centers include the following: Jesse H. Jones Hall; Bayou Place; Gus S. Wortham Center; George R. Brown Convention Center and the Tranquility Park and Theater District parking garages.

Combined Utility System — This fund is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

Nonmajor Enterprise Funds – The Houston Area Water Corporation fund did not meet the established criteria for major fund status. The Houston Area Water Corporation was organized to provide water to the City of Houston for resale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District.

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 55,187	\$ 46,753
Equity in pooled cash and investments	572,391	547,450
Receivables, net of allowances		
Accounts receivable	29,598	30,456
Accrued interest and other	-	1,651
Due from other funds	505	5,032
Due from other governments	9,731	10,967
Inventory	3,334	3,441
Prepaid items	1,889	1,400
Restricted assets		
Investments	8,023	6,696
Total current assets	680,658	653,846
Noncurrent Assets		
Deferred charges for issuance cost	1,882	1,960
Capital assets		
Land	198,614	193,210
Buildings, improvements and equipment	3,386,063	3,150,188
Construction in progress	329,210	437,613
Less accumulated depreciation		
Buildings, improvements and equipment	(1,077,689)	(948,142)
Net capital assets	2,836,198	2,832,869
Total noncurrent assets	2,838,080	2,834,829
Total assets	\$ 3,518,738	\$ 3,488,675

(Continued)

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Liabilities		
Current Liabilities		
Accounts payable	\$ 4,143	\$ 8,086
Accrued payroll liabilities	1,340	765
Accrued interest payable	49,070	49,667
Contracts and retainages payable	23,712	43,860
Due to other funds	-	2,863
Advances and deposits	1,844	2,960
Inferior lien contract	3,450	3,255
Claims and judgments	1,157	1,043
Compensated absences	3,286	2,893
Other liabilities	851	-
Revenue bonds payable	28,385	27,665
Deferred revenue	8,127	-
Total current liabilities	125,365	143,057
Noncurrent liabilities		
Revenue bonds payable, net	2,079,461	2,106,407
Claims and judgments	2,292	1,625
Compensated absences	3,530	3,807
Inferior lien contracts	53,360	56,810
Commercial paper	59,000	48,500
Arbitrage rebate	-	160
Other long-term liabilities	1,961	-
Pension note payable	34,800	34,800
Municipal pension trust liability	22,747	22,584
Pension obligation bonds payable	2,006	2,006
Total noncurrent liabilities	2,259,157	2,276,699
Total liabilities	2,384,522	2,419,756
Net assets		
Invested in capital assets, net of related debt	688,569	695,039
Restricted net assets		
Restricted for debt service	37,868	32,267
Restricted for renewal and replacement	10,000	12,852
Restricted for maintenance and operations	38,322	34,160
Restricted for capital improvements	359,457	292,416
Other restricted	-	2,185
Total net assets	\$ 1,134,216	\$ 1,068,919

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Landing area fees	\$ 101,758	\$ 102,072
Terminal space rentals	179,951	151,417
Parking	62,377	55,444
Concession	46,507	41,842
Other	3,268	2,866
Total operating revenue	<u>393,861</u>	<u>353,641</u>
Operating Expenses		
Maintenance and operating	202,496	223,972
Depreciation and amortization	134,150	105,891
Total operating expenses	<u>336,646</u>	<u>329,863</u>
Operating income (loss)	<u>57,215</u>	<u>23,778</u>
Nonoperating revenue (expenses)		
Investment income	18,667	16,105
Other revenue	56	4,295
Loss on disposal of assets	(1,297)	(549)
Interest on long-term debt	(93,449)	(76,496)
Total Nonoperating revenues (expenses)	<u>(76,023)</u>	<u>(56,645)</u>
Income (loss) before contributions and transfers	<u>(18,808)</u>	<u>(32,867)</u>
Capital contributions	<u>84,105</u>	<u>63,989</u>
Change in net assets	65,297	31,122
Total net assets, July 1	<u>1,068,919</u>	<u>1,037,797</u>
Total net assets, June 30	<u>\$ 1,134,216</u>	<u>\$ 1,068,919</u>

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Receipts from customers	\$ 401,714	\$ 337,583
Payments to employees	(76,049)	(72,384)
Payments to suppliers	(88,223)	(69,114)
Internal activity-payments to other funds	(35,296)	(39,629)
Claims paid	(1,157)	(5,447)
Other revenues	56	4,295
Net cash provided by operating activities	<u>201,045</u>	<u>155,304</u>
Cash flows from investing activities		
Interest income on investments	22,515	14,531
Purchase of investments	(432,810)	(389,187)
Proceeds from sale of investments	402,535	559,931
Net cash provided by (used for) investing activities	<u>(7,760)</u>	<u>185,275</u>
Cash flows from noncapital financing activities		
Proceeds from issuance of pension obligation bonds	-	1,962
Interest expense pension obligation bonds	(98)	-
Interest expense collateralized note	(2,637)	-
Net cash provided by (used in) noncapital financing activities	<u>(2,735)</u>	<u>1,962</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(27,665)	(19,740)
Proceeds from inferior lien contract	-	6,681
Proceeds (uses of cash) from issuance of revenue bonds	(655)	702
Proceeds from issuance of commercial paper	10,500	28,500
Interest expense on debt	(109,708)	(106,636)
Retirement of inferior lien contract	(1,628)	-
Advances and deposits on construction	9	7
Contributed capital	85,342	54,242
Acquisition of property, plant and equipment	(138,311)	(279,548)
Net cash provided by (used in) capital and related financing activities	<u>(182,116)</u>	<u>(315,792)</u>
Net increase in cash and cash equivalents	8,434	26,749
Cash and cash equivalents, July 1	<u>46,753</u>	<u>20,004</u>
Cash and cash equivalents, June 30	<u>\$ 55,187</u>	<u>\$ 46,753</u>
Non cash transactions		
Unrealized gain (loss) on investments	(4,007)	437
Pension note	-	34,800
Inferior lien contract	-	51,756
Capitalized interest expense	19,913	32,634
Loss on disposal of assets	1,297	549
Total non cash transactions	<u>\$ 17,203</u>	<u>\$ 120,176</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 57,215	\$ 23,778
Depreciation and amortization	134,150	105,891
Other revenues	56	4,295
Changes in assets and liabilities		
Accounts receivable	858	(15,007)
Due from other funds	3,850	(3,208)
Inventory	(382)	(123)
Accounts payable	(475)	2,709
Accrued payroll liabilities	575	(1,891)
Due to other funds	(2,863)	1,958
Advances and deposits	7,002	(1,065)
Claims and judgments - workers' compensation	781	(4,404)
Compensated absences	116	235
Pension Note	-	34,800
Pension Obligation payable	162	7,336
Net cash provided by operating activities	<u>\$ 201,045</u>	<u>\$ 155,304</u>

CITY OF HOUSTON, TEXAS
CONVENTION & ENTERTAINMENT
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 39,904	\$ 28,009
Equity in pooled cash and investments	34,248	36,049
Receivables, net of allowances		
Accounts receivable	972	755
Hotel occupancy tax receivable	13,900	12,902
Due from component units	10,949	314,115
Due from other funds	124	447
Due from other governments	687	-
Prepaid items	603	439
Restricted assets		
Investments	21,774	21,774
Total current assets	123,161	414,490
Noncurrent Assets		
Due from component units	296,315	-
Deferred charges for issuance cost	4,032	4,337
Other assets		
Garage Rights, net of amortization	12,274	12,611
Capital assets		
Land	99,757	99,757
Buildings, improvements and equipment	448,891	431,495
Construction in progress	8,039	20,866
Less accumulated depreciation		
Buildings, improvements and equipment	(133,598)	(122,775)
Net capital assets	423,089	429,343
Total noncurrent assets	735,710	446,291
Total assets	\$ 858,871	\$ 860,781

(Continued)

CITY OF HOUSTON, TEXAS
CONVENTION & ENTERTAINMENT
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 8,160	\$ 2,921
Accrued payroll liabilities	139	81
Accrued interest payable	6,177	6,313
Contracts and retainages payable	1,055	3,211
Due to other funds	-	37
Due to component units	27,392	23,518
Due to other governments	5	4
Advances and deposits	851	467
Claims and judgments	81	58
Compensated absences	308	335
Other liabilities	214	-
Revenue bonds payable	14,775	13,680
Deferred revenue	396	396
Total current liabilities	<u>59,553</u>	<u>51,021</u>
Noncurrent liabilities		
Revenue bonds payable	624,638	631,425
Claims and judgments	213	54
Compensated absences	395	308
Commercial paper	22,500	22,500
Arbitrage rebate	121	888
Other long-term liabilities	494	-
Pension note payable	3,300	3,300
Municipal pension trust liability	2,391	2,412
Deferred revenue	11,080	11,771
Pension obligation bonds payable	189	189
Total noncurrent liabilities	<u>665,321</u>	<u>672,847</u>
Total liabilities	<u>724,874</u>	<u>723,868</u>
Net Assets		
Invested in capital assets, net of related debt	77,320	87,801
Restricted net assets		
Restricted for debt service	15,597	15,461
Restricted for maintenance and operations	15,951	14,407
Unrestricted	25,129	19,244
Total net assets	<u>\$ 133,997</u>	<u>\$ 136,913</u>

CITY OF HOUSTON, TEXAS
CONVENTION & ENTERTAINMENT
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Parking	\$ 8,984	\$ 8,882
Concession	3,920	3,373
Rental	<u>6,695</u>	<u>6,920</u>
Total operating revenue	<u>19,599</u>	<u>19,175</u>
Operating Expenses		
Maintenance and operating	33,437	32,797
Depreciation and amortization	<u>10,984</u>	<u>10,372</u>
Total operating expenses	<u>44,421</u>	<u>43,169</u>
Operating income (loss)	<u>(24,822)</u>	<u>(23,994)</u>
Nonoperating revenue (expenses)		
Investment income	16,729	15,926
Hotel occupancy tax	54,765	42,266
Other revenue	170	
Other expenses	(23,880)	(19,614)
Interest on long-term debt	(30,970)	(29,468)
Contributions In	4,020	4,106
Contributions out	<u>-</u>	<u>(41,371)</u>
Total Nonoperating revenues (expenses)	<u>20,834</u>	<u>(28,155)</u>
Income (loss) before contributions and transfers	<u>(3,988)</u>	<u>(52,149)</u>
Capital contributions	<u>72</u>	<u>231</u>
Operating transfers in	1,000	2,942
Operating transfers out	<u>-</u>	<u>(709)</u>
Total transfers	<u>1,000</u>	<u>2,233</u>
Change in net assets	(2,916)	(49,685)
Total net assets, July 1	<u>136,913</u>	<u>186,598</u>
Total net assets, June 30	<u>\$ 133,997</u>	<u>\$ 136,913</u>

CITY OF HOUSTON, TEXAS
CONVENTION & ENTERTAINMENT
Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Receipts from customers	\$ 19,075	\$ 20,054
Payments to employees	(7,062)	(6,657)
Payments to suppliers	(20,412)	(23,499)
Internal activity-payments to other funds	(471)	(1,483)
Claims paid	90	(51)
Due from other governments	1	1
Other revenues	170	196
Other expenses	<u>(2,018)</u>	<u>(4,281)</u>
Net cash used for operating activities	<u>(10,627)</u>	<u>(15,720)</u>
Cash flows from investing activities		
Interest income on investments	17,192	15,940
Purchase of investments	(47,611)	(55,074)
Proceeds from sale of investments	<u>48,948</u>	<u>66,951</u>
Net cash provided by investing activities	<u>18,529</u>	<u>27,817</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(13,680)	(6,590)
Interest expense on debt	(23,094)	(22,715)
Acquisition of property, plant and equipment, net	<u>(5,964)</u>	<u>(6,141)</u>
Net cash used for capital and related financing activities	<u>(42,738)</u>	<u>(35,446)</u>
Cash flows from noncapital financing activities		
Promotional contract paid from hotel occupancy tax revenues to component units	(21,862)	(18,064)
Proceeds from pension bonds	-	189
Transfers	1,000	2,233
Payments to Hotel Corporation	14,057	(5,598)
Hotel occupancy tax revenue	53,768	42,985
Interest expense on pension obligation bonds	(10)	-
Interest expense on collateralized note	<u>(222)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>46,731</u>	<u>21,745</u>
Net increase (decrease) in cash and cash equivalents	11,895	(1,604)
Cash and cash equivalents, July 1	<u>28,009</u>	<u>29,613</u>
Cash and cash equivalents, June 30	<u>\$ 39,904</u>	<u>\$ 28,009</u>

(Continued)

CITY OF HOUSTON, TEXAS
CONVENTION & ENTERTAINMENT
Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Non cash transactions		
Unrealized gain (loss) on investments	\$ 464	\$ 15
Pension note	-	3,300
Contributions of capital assets	72	37,262
Capitalized interest expense	513	1,068
Total non cash transactions	<u>\$ 1,049</u>	<u>\$ 41,645</u>
Reconciliation of operating income to net cash used by operating activities		
Operating income (loss)	\$ (24,822)	\$ (23,994)
Depreciation and amortization	10,984	10,372
Other expenses	(1,848)	(4,085)
Changes in assets and liabilities		
Accounts receivable and prepaids	(217)	(22)
Due from other funds	322	(257)
Accounts payable	5,453	(2,271)
Accrued payroll liabilities	58	(185)
Due to other funds	(37)	(571)
Due to other governments	1	1
Advances and deposits	384	(18)
Inventory and prepaid Insurance	(163)	61
Claims and judgments-workers' compensation	182	97
Compensated absences	61	29
Deferred revenue	(691)	919
Pension note	-	3,300
Other long-term liabilities	(294)	904
Net cash used in operating activities	<u>\$ (10,627)</u>	<u>\$ (15,720)</u>

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Assets		
Current assets		
Cash and cash equivalent	\$ 174,030	\$ 188,093
Equity in pooled cash and investments	393,668	335,485
Receivables, net of allowances		
Accounts receivable	76,781	69,693
Special assessments receivable	97	97
Due from other funds	1,924	5,489
Due from other governments	6,436	6,375
Inventory	4,677	6,604
Prepaid items	2,758	-
Investments	-	3,765
Total current assets	660,371	615,601
Noncurrent Assets		
Deferred charges for issuance cost	45,990	46,281
Other assets		
Water rights, net of amortization	214,027	225,450
Amounts held by other governments	11,793	12,266
Total other assets	225,820	237,716
Capital assets		
Land	102,148	100,851
Buildings, improvements and equipment	226,641	225,492
Plants, lines and rights	7,103,924	6,910,094
Construction in progress	763,597	637,389
Less accumulated depreciation		
Buildings, improvements and equipment	(124,007)	(117,906)
Plants, lines and rights	(3,517,076)	(3,324,975)
Net capital assets	4,555,227	4,430,945
Total noncurrent assets	4,827,037	4,714,942
Total assets	\$ 5,487,408	\$ 5,330,543

(Continued)

**CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands**

	2006	2005
Liabilities		
Current Liabilities		
Accounts payable	\$ 12,308	\$ 10,933
Accrued payroll liabilities	1,931	1,715
Accrued interest payable	26,571	24,267
Contracts and retainages payable	76,264	66,629
Due to other funds	742	6,680
Due to other governments	3,635	766
Advances and deposits	29,330	26,131
Claims and judgments	2,200	2,627
Compensated absences	5,348	4,877
Other liabilities	2,197	-
Revenue bonds payable	25,618	20,356
Deferred revenue	-	1,287
Total current liabilities	186,144	166,268
Noncurrent liabilities		
Revenue bonds payable	4,260,640	4,066,745
Claims and judgments	1,829	2,470
Compensated absences	10,203	11,539
Contracts payable	227,885	248,294
Commercial paper	226,800	180,000
Other long-term liabilities	5,063	-
Pension note payable	51,600	51,600
Municipal pension trust liability	37,892	39,067
Deferred revenue	158,919	111,618
Pension obligation bonds payable	3,382	3,382
Total noncurrent liabilities	4,984,213	4,714,715
Total liabilities	5,170,357	4,880,983
Net Assets		
Invested in capital assets, net of related debt	173,421	322,683
Restricted net assets		
Restricted for maintenance and operations	62,733	58,702
Restricted for capital improvements	6,436	-
Unrestricted	74,461	68,175
Total net assets	\$ 317,051	\$ 449,560

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Water/Sewer Billing	\$ 642,662	\$ 598,874
Total operating revenue	<u>642,662</u>	<u>598,874</u>
Operating Expenses		
Maintenance and operating	302,955	332,800
Depreciation and amortization	228,665	224,074
Total operating expenses	<u>531,620</u>	<u>556,874</u>
Operating income (loss)	<u>111,042</u>	<u>42,000</u>
Nonoperating revenue (expenses)		
Investment income	18,650	12,972
Other revenue	26,557	24,707
Loss on disposal of assets	(5,571)	(4,193)
Other expenses	(51)	-
Interest on long-term debt	(214,880)	(201,142)
Total Nonoperating revenues (expenses)	<u>(175,295)</u>	<u>(167,656)</u>
Income (loss) before contributions and transfers	<u>(64,253)</u>	<u>(125,656)</u>
Capital contributions	<u>19,301</u>	<u>42,495</u>
Transfers out	<u>(87,557)</u>	<u>(87,414)</u>
Change in net assets	(132,509)	(170,575)
Total net assets, July 1	<u>449,560</u>	<u>620,135</u>
Total net assets, June 30	<u>\$ 317,051</u>	<u>\$ 449,560</u>

**CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Receipts from customers	\$ 638,773	\$ 601,984
Payments to employees	(116,485)	(115,020)
Payments to suppliers	(177,594)	(148,849)
Internal activity-payments to other funds	(10,776)	(8,010)
Claims paid	(2,230)	(2,787)
Other revenues	24,147	25,742
Net cash provided by (used in) operating activities	<u>355,835</u>	<u>353,060</u>
Cash flows from investing activities		
Interest income on investments	22,435	13,504
Purchase of investments	(631,741)	(380,478)
Proceeds from sale of investments	573,538	281,534
Net cash provided by (used in) investing activities	<u>(35,768)</u>	<u>(85,440)</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(50,166)	(71,947)
Proceeds from issuance of revenue bonds - net	431	208,722
Proceeds from issuance of commercial paper	250,000	180,000
Interest expense on debt	(206,422)	(189,042)
Proceeds from disposition of assets	(4,655)	-
Contributed capital	65,722	14,854
Deferred bond issuance cost	5,377	-
Acquisition of property, plant and equipment	(303,172)	(267,634)
Net cash used for capital and related financing activities	<u>(242,885)</u>	<u>(125,047)</u>
Cash flows from noncapital financing activities		
Proceeds from pension bonds		3,382
Interest expense on pension obligation bonds	(165)	-
Interest expense on collateralized note	(3,472)	-
Transfers to debt service fund	(26,257)	(27,822)
Transfers to other funds	(61,351)	(56,567)
Net cash used in noncapital financing activities	<u>(91,245)</u>	<u>(81,007)</u>
Net decrease in cash and cash equivalents	(14,063)	61,566
Cash and cash equivalents, July 1	<u>188,093</u>	<u>126,527</u>
Cash and cash equivalents, June 30	<u>\$ 174,030</u>	<u>\$ 188,093</u>
Non cash transactions		
Unrealized gain (loss) on investments	5,176	533
Pension note		51,600
Contributed Capital	19,301	6,660
Capitalized interest expense	29,695	25,048
Loss on disposal of assets	5,571	4,193
Total non cash transactions	<u>\$ 59,743</u>	<u>\$ 88,034</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 111,042	\$ 42,000
Depreciation and amortization	228,665	224,072
Other revenues	26,557	25,741
Changes in assets and liabilities		
Accounts receivable	(7,087)	(10,451)
Due from other funds	3,565	(5,446)
Due from other governments	(5,204)	(254)
Inventory & prepaid insurance	(831)	(910)
Accounts payable	1,373	1,526
Accrued payroll liabilities	215	(3,162)
Due to other funds	(5,938)	4,240
Due to other governments	-	-
Advances and deposits	3,197	3,652
Claims and judgments-workers' compensation	(1,068)	306
Compensated absences	(865)	(665)
Pension obligation payable	7,261	10,901
Pension note	(1,175)	51,600
Deferred revenues	(3,872)	9,910
Net cash provided by operating activities	<u>\$ 355,835</u>	<u>\$ 353,060</u>

CITY OF HOUSTON, TEXAS
Houston Area Water Corporation
Statement of Net Assets
June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 211	\$ -
Equity in pooled cash and investments	1,838	76
Receivables, net of allowances		
Due from other funds	742	5,941
Due from other governments	21	-
Prepaid items	283	-
Restricted assets		
Investments	3,433	7,328
Total current assets	<u>6,528</u>	<u>13,345</u>
Noncurrent Assets		
Deferred charges for issuance cost	1,564	1,625
Capital assets		
Land	2,845	-
Buildings, improvements and equipment	24,818	-
Plants, lines and rights	138,365	-
Construction in progress	-	156,952
Less accumulated depreciation		
Buildings, improvements and equipment	(559)	-
Plants, lines and rights	(3,181)	-
Net capital assets	<u>162,288</u>	<u>156,952</u>
Total noncurrent assets	<u>163,852</u>	<u>158,577</u>
Total assets	<u>\$ 170,380</u>	<u>\$ 171,922</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 2,142	\$ 4,573
Accrued interest payable	2,197	2,236
Contracts and retainages payable	1,050	2,965
Revenue bonds payable	2,485	2,365
Deferred revenue	283	-
Total current liabilities	<u>8,157</u>	<u>12,139</u>
Noncurrent liabilities		
Revenue bonds payable	124,623	127,077
Total noncurrent liabilities	<u>124,623</u>	<u>127,077</u>
Total liabilities	<u>132,780</u>	<u>139,216</u>
Net assets		
Investment in capital assets, net of related debt	37,524	32,631
Restricted net assets		
Unrestricted	76	75
Total net assets	<u>\$ 37,600</u>	<u>\$ 32,706</u>

CITY OF HOUSTON, TEXAS
Houston Area Water Corporation
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Water/Sewer Billing	\$ -	\$ -
Total operating revenue	<u>-</u>	<u>-</u>
Operating Expenses		
Administrative costs	-	77
Maintenance and operating	7,485	-
Depreciation and amortization	3,740	-
Total operating expenses	<u>11,225</u>	<u>77</u>
Operating income (loss)	<u>(11,225)</u>	<u>(77)</u>
Nonoperating revenue (expenses)		
Investment income	166	-
Interest on long-term debt	(6,203)	(92)
Contributions in	-	191
Total Nonoperating revenues (expenses)	<u>(6,037)</u>	<u>99</u>
Income (loss) before contributions and transfers	<u>(17,262)</u>	<u>22</u>
Operating transfers in - primary government	<u>22,156</u>	<u>26,567</u>
Total transfers	<u>22,156</u>	<u>26,567</u>
Change in net assets	4,894	26,589
Total net assets (deficit), July 1	<u>32,706</u>	<u>6,117</u>
Total net assets, June 30	<u>\$ 37,600</u>	<u>\$ 32,706</u>

CITY OF HOUSTON, TEXAS
Houston Area Water Corporation
Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative amounts for 2005)
amounts expressed in thousands

	2006	2005
Cash flows from operating activities		
Receipts from customers	\$ -	\$ -
Payments to employees	-	-
Payments to suppliers	(5,512)	-
Internal activity-payments (to) from other funds	7,484	-
Other expenses	-	(81)
Net cash used for operating activities	1,972	(81)
 Cash flows from investing activities		
Interest income on investments	166	241
Proceeds from sale of investments	2,132	6,122
Net cash provided by (used for) investing activities	2,298	6,363
 Cash flows from capital and related financing activities		
Retirement of revenue bonds	(2,365)	-
Interest expense on debt	(450)	(5,033)
Advances and deposits on construction	13,668	19,139
Acquisition of property, plant and equipment	(14,912)	(20,388)
Net cash provided by (used for) capital and related financing activities	(4,059)	(6,282)
 Net increase (decrease) in cash and cash equivalents	211	-
Cash and cash equivalents, June 30	\$ 211	\$ -
 Non cash transactions		
Amortization expense	\$ 92	\$ 92
Capitalized interest expense	542	6,469
Total non cash transactions	\$ 634	\$ 6,561
 Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income (loss)	\$ (11,225)	\$ (77)
Depreciation and amortization	3,740	-
Changes in assets and liabilities		
Accounts receivable and prepaids	(60)	-
Accounts payable	2,033	(4)
Other revenues	7,484	-
Net cash used for operating activities	\$ 1,972	\$ (81)

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one city department to other city departments on a cost reimbursement basis.

Health Benefits — This fund is used to account for the costs incurred to provide City employees' health care and life insurance benefits.

Long-Term Disability — This fund is used to account for the costs incurred to provide City employees' long-term disability coverage.

CITY OF HOUSTON, TEXAS
INTERNAL SERVICE FUNDS
Combining Statement of Net Assets
June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	<u>Health Benefits</u>	<u>Long-term Disability</u>	<u>2006</u>	<u>2005</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 5,400	\$ 7,968	\$ 13,368	\$ 46,137
Receivables, net of allowances				
Accounts receivable	1	-	1	1
Due from other funds	-	-	-	2
Total current assets	<u>5,401</u>	<u>7,968</u>	<u>13,369</u>	<u>46,140</u>
Liabilities				
Current Liabilities				
Accounts payable	29	34	63	34,582
Accrued payroll liabilities	39	-	39	25
Due to other funds	-	-	-	2
Advances and deposits	7	-	7	2,140
Claims and judgments	1,258	772	2,030	7,566
Compensated absences	89	-	89	98
Unearned revenue	927	-	927	406
Total current liabilities	<u>2,349</u>	<u>806</u>	<u>3,155</u>	<u>44,819</u>
Noncurrent liabilities				
Claims and judgments	-	6,274	6,274	-
Compensated absences	62	-	62	27
Total noncurrent liabilities	<u>62</u>	<u>6,274</u>	<u>6,336</u>	<u>27</u>
Total liabilities	<u>2,411</u>	<u>7,080</u>	<u>9,491</u>	<u>44,846</u>
Net Assets				
Unrestricted	2,990	888	3,878	1,294
Total net assets	<u>\$ 2,990</u>	<u>\$ 888</u>	<u>\$ 3,878</u>	<u>\$ 1,294</u>

CITY OF HOUSTON, TEXAS
INTERNAL SERVICE FUNDS
Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	<u>Health Benefits</u>	<u>Long-term Disability</u>	<u>2006</u>	<u>2005</u>
Operating Revenues				
Health benefit premiums	\$ 229,579	\$ 2,261	\$ 231,840	\$ 215,374
Total operating revenues	<u>229,579</u>	<u>2,261</u>	<u>231,840</u>	<u>215,374</u>
Operating Expenses				
Administrative costs	3,134	-	3,134	4,044
Claims Costs	225,189	1,618	226,807	211,338
Total operating expenses	<u>228,323</u>	<u>1,618</u>	<u>229,941</u>	<u>215,382</u>
Operating income (loss)	<u>1,256</u>	<u>643</u>	<u>1,899</u>	<u>(8)</u>
Nonoperating revenues (expenses)				
Investment income	457	228	685	602
Other revenue	-	-	-	2
Total Nonoperating revenues (expenses)	<u>457</u>	<u>228</u>	<u>685</u>	<u>604</u>
Income (loss) before contributions and transfers	<u>1,713</u>	<u>871</u>	<u>2,584</u>	<u>596</u>
Change in net assets	1,713	871	2,584	596
Total net assets (deficit), July 1	<u>1,277</u>	<u>17</u>	<u>1,294</u>	<u>698</u>
Total net assets, June 30	<u><u>\$ 2,990</u></u>	<u><u>\$ 888</u></u>	<u><u>\$ 3,878</u></u>	<u><u>\$ 1,294</u></u>

CITY OF HOUSTON, TEXAS
INTERNAL SERVICE FUNDS
Combining Statement of Cash Flows
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	Health Benefits	Long-term Disability	2006	2005
Cash flows from operating activities				
Receipts from customers	\$ 229,580	\$ 2,261	\$ 231,841	\$ 215,374
Payments to employees	(2,134)	-	(2,134)	(1,956)
Payments to suppliers	(37,037)	-	(37,037)	36,165
Internal activity-payments to other funds	(47)	-	(47)	(34)
Claims paid	(225,154)	(923)	(226,077)	(213,097)
Net cash provided by (used in) operating activities	<u>(34,792)</u>	<u>1,338</u>	<u>(33,454)</u>	<u>36,452</u>
Cash flows from investing activities				
Interest income on investments	457	228	685	602
Net cash provided by investing activities	<u>457</u>	<u>228</u>	<u>685</u>	<u>602</u>
Cash flows from noncapital financing activities				
Other revenues	-	-	-	2
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
Net increase (decrease) in cash and cash equivalents	(34,335)	1,566	(32,769)	37,056
Cash and cash equivalents, July 1	39,735	6,402	46,137	9,081
Cash and cash equivalents, June 30	<u>\$ 5,400</u>	<u>\$ 7,968</u>	<u>\$ 13,368</u>	<u>\$ 46,137</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	\$ 1,256	\$ 643	\$ 1,899	\$ (8)
Changes in assets and liabilities				
Due from other funds	2	-	2	223
Accounts payable	(34,519)	-	(34,519)	36,641
Accrued payroll liabilities	14	-	14	(68)
Due to other funds	(2)	-	(2)	(13)
Advances and deposits	(2,132)	-	(2,132)	-
Claims for workers' compensation	43	695	738	(370)
Compensated absences	25	-	25	(3)
Deferred revenue	521	-	521	50
Net cash provided by operating activities	<u>\$ (34,792)</u>	<u>\$ 1,338</u>	<u>\$ (33,454)</u>	<u>\$ 36,452</u>

Fiduciary Funds (Trust and Agency Funds)

Trust and Agency Funds are used to account for assets held by a government unit as trustee, or agent, for individuals, private organizations, other governmental units, and/or other funds.

Pension trust funds are used to account for the operation of the employee pension retirement programs. The funds include: Houston Firefighters' Relief and Retirement, Houston Municipal Employees', and Police Officers' funds.

Agency funds are custodial in nature, and assets equal liabilities with no measure of the results of operations or financial position. Agency funds include: Payroll Revolving, City Deposits, and Tax Clearing Funds.

CITY OF HOUSTON, TEXAS
PENSION TRUST FUNDS
Combining Statement of Plan Net Assets
June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

		Firefighters' Relief and Retirement Pension Trust Fund
Assets		
Cash	\$	2,769
Investments		
U.S. government and agency securities		-
Corporate bonds		-
Other fixed income securities		839,208
Commingled equity funds		-
Common and preferred stock		1,165,275
Real estate and partnerships		413,501
Short-term investment funds		136,945
Invested securities lending collateral		577,293
Receivables, net of allowances		
Due from broker		134
Contributions		2,689
Accrued interest and dividends		13,686
Other		65,295
Other assets		1,493
Land		483
Building		7,488
Total assets		3,226,259
 Liabilities and plan net asset		
Liabilities		
Accounts payable		13,537
Securities lending collateral		577,293
Foreign funds contracts payable		61,478
Other liabilities		67
Total liabilities		652,375
 Plan net assets held in trust for pension benefits	 \$	 2,573,884

(Continued)

Municipal Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	2006	2005
\$ 2,718	\$ 158	\$ 5,645	\$ 4,061
57,379	-	57,379	62,840
75,568	-	75,568	73,687
-	855,757	1,694,965	1,161,249
548,133	-	548,133	420,920
509,384	1,309,896	2,984,555	2,968,819
484,671	626,492	1,524,664	793,993
66,298	95,188	298,431	656,369
93,012	574,793	1,245,098	1,174,652
7,147	17,607	24,888	30,275
-	1,099	3,788	3,809
36,182	9,229	59,097	35,480
303,140	129	368,564	382,085
8,327	-	9,820	56,350
-	-	483	541
-	-	7,488	7,784
<u>2,191,959</u>	<u>3,490,348</u>	<u>8,908,566</u>	<u>7,832,914</u>
36,009	20,102	69,648	66,982
93,012	574,793	1,245,098	925,986
7,139	348	68,965	73,824
3,503	-	3,570	4,058
<u>139,663</u>	<u>595,243</u>	<u>1,387,281</u>	<u>1,070,850</u>
<u>\$ 2,052,296</u>	<u>\$ 2,895,105</u>	<u>\$ 7,521,285</u>	<u>\$ 6,762,064</u>

CITY OF HOUSTON, TEXAS
PENSION TRUST FUNDS
Combining Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2006
(With comparative totals for 2005)
amounts expressed in thousands

	Firefighters' Relief and Retirement Pension Trust Fund
Additions:	
Contributions	
City of Houston	\$ 48,780
Members	18,470
Total Contributions	67,250
Investment income	
Interest	48,722
Net appreciation in fair value of investments	250,060
Dividends	20,578
Income on securities lending	23,780
Earnings from real estate, limited partnerships real estate investments, and other investments	10,417
Other income	512
Total investment and other income (loss)	354,069
Less - investment expense	(10,095)
Less - cost of securities lending	(22,339)
Total additions (reductions)	388,885
Deductions:	
Benefits paid to members	93,843
Refunds to members	265
Other	6,897
Total deductions	101,005
Net increase (decrease)	287,880
Plan net assets held in trust for pension benefits, beginning of year	2,286,004
Plan net assets held in trust for pension benefits, end of year	\$ 2,573,884

(Continued)

Municipal Employees' Pension Trust Fund		Police Officers' Pension Trust Fund		2006	2005
\$	66,968	\$	53,068	\$ 168,816	\$ 433,061
	21,888		28,863	69,221	68,253
	<u>88,856</u>		<u>81,931</u>	<u>238,037</u>	<u>501,314</u>
	8,633		30,201	87,556	88,414
	235,078		256,825	741,963	678,942
	9,128		21,926	51,632	55,566
	31,424		1,478	56,682	30,848
	25,592		-	36,009	55,943
	385		157	1,054	10,991
	<u>310,240</u>		<u>310,587</u>	<u>974,896</u>	<u>920,704</u>
	(6,083)		(14,143)	(30,321)	(36,568)
	(4,441)		(377)	(27,157)	(12,118)
	<u>388,572</u>		<u>377,998</u>	<u>1,155,455</u>	<u>1,373,332</u>
	154,311		130,443	378,597	415,198
	1,037		700	2,002	2,264
	5,780		2,958	15,635	16,202
	<u>161,128</u>		<u>134,101</u>	<u>396,234</u>	<u>433,664</u>
	227,444		243,897	759,221	939,668
	<u>1,824,852</u>		<u>2,651,208</u>	<u>6,762,064</u>	<u>5,822,396</u>
\$	<u>2,052,296</u>	\$	<u>2,895,105</u>	<u>\$ 7,521,285</u>	<u>\$ 6,762,064</u>

CITY OF HOUSTON, TEXAS
AGENCY FUNDS
Combining Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2006
amounts expressed in thousands

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Payroll Revolving Fund				
Assets				
Equity in pooled cash and investments	\$ 23,652	\$ 3,765,674	\$ 3,782,125	\$ 7,201
Accounts receivable	120	2,656	2,655	121
Total assets	<u>\$ 23,772</u>	<u>\$ 3,768,330</u>	<u>\$ 3,784,780</u>	<u>\$ 7,322</u>
Liabilities				
Accounts payable	<u>\$ 23,772</u>	<u>\$ 1,946,684</u>	<u>\$ 1,963,134</u>	<u>\$ 7,322</u>
Total liabilities	<u>\$ 23,772</u>	<u>\$ 1,946,684</u>	<u>\$ 1,963,134</u>	<u>\$ 7,322</u>
City Deposit Fund				
Assets				
Equity in pooled cash and investments	\$ 130	\$ 10	\$ 11	\$ 129
Total assets	<u>\$ 130</u>	<u>\$ 10</u>	<u>\$ 11</u>	<u>\$ 129</u>
Liabilities				
Advances and deposits	<u>\$ 130</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 129</u>
Total liabilities	<u>\$ 130</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 129</u>
Tax Clearing Fund				
Assets				
Equity in pooled cash and investments	\$ 21,367	\$ 247,578	\$ 262,668	\$ 6,277
Total assets	<u>\$ 21,367</u>	<u>\$ 247,578</u>	<u>\$ 262,668</u>	<u>\$ 6,277</u>
Liabilities				
Accounts payable	<u>\$ 21,367</u>	<u>\$ 157,928</u>	<u>\$ 173,018</u>	<u>\$ 6,277</u>
Total liabilities	<u>\$ 21,367</u>	<u>\$ 157,928</u>	<u>\$ 173,018</u>	<u>\$ 6,277</u>
Totals - All Agency Funds				
Assets				
Equity in pooled cash and investments	\$ 45,149	\$ 4,013,262	\$ 4,044,804	\$ 13,607
Accounts receivable	120	2,656	2,655	121
Total assets	<u>\$ 45,269</u>	<u>\$ 4,015,918</u>	<u>\$ 4,047,459</u>	<u>\$ 13,728</u>
Liabilities				
Accounts payable	\$ 45,139	\$ 2,104,612	\$ 2,136,152	\$ 13,599
Advances and deposits	130	5	6	129
Total liabilities	<u>\$ 45,269</u>	<u>\$ 2,104,617</u>	<u>\$ 2,136,158</u>	<u>\$ 13,728</u>

Discretely Presented Component Units (Governmental and Business-type)

Discretely Presented Component Units are legally separate organizations that the City of Houston must include as a part of its financial reporting entity for fair presentation.

Governmental – This category is primarily comprised of advisory boards and redevelopment authorities:

- City Park Redevelopment Authority
- Houston Arts Alliance (formerly Culture Arts Council of Houston/Harris County)
- East Downtown Redevelopment Authority
- Fourth Ward Redevelopment Authority
- Greater Greenspoint Redevelopment Authority
- Greater Houston Convention and Visitor's Bureau
- Gulfgate Redevelopment Authority
- HALAN Fund
- Houston Business Development Inc.
- Houston Downtown Park Corporation
- Houston Library Board
- Houston Parks Board
- Lamar Terrace Public Improvement District
- Land Assemblage Redevelopment Authority
- Main Street Market Square Redevelopment Authority
- Memorial City Redevelopment Authority
- Memorial Heights Redevelopment Authority
- Midtown Redevelopment Authority
- Old Sixth Ward Redevelopment Authority
- OST/Almeda Corridors Redevelopment Authority
- Saint George Place Redevelopment Authority
- Sharpstown Economic Development Authority
- South Post Oak Redevelopment Authority
- Southwest Houston Redevelopment Authority
- Upper Kirby Redevelopment Authority
- Uptown Development Authority

Business-type – This category is comprised of:

- Houston Convention Center Hotel Corporation
- Houston Housing Finance Corporation
- Houston Zoo Inc.

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	City Park Redevelopment Authority	Houston Arts Alliance (Fmly Cultural Arts Council of Houston /Harris County)	East Downtown Redevelopment Authority	Fourth Ward Redevelopment Authority
Assets				
Current Assets				
Cash	\$ 177	\$ 509	\$ 398	\$ 2,096
Equity in pooled cash and investments	-	1,644	-	-
Receivables, net of allowances				
Accounts receivable	218	1,830	313	-
Accrued interest and other	-	-	-	-
Due from other governments	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	12	-	5
Restricted assets				
Investments	-	-	-	-
Total current assets	<u>395</u>	<u>3,995</u>	<u>711</u>	<u>2,101</u>
Noncurrent Assets				
Restricted assets				
Investments	-	-	-	-
Assessments receivable	-	-	-	-
Deferred charges for issuance cost	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets				
Land	-	-	315	637
Buildings, improvements and equipment	1,199	301	-	1
Construction in progress	-	-	-	-
Less accumulated depreciation				
Buildings, improvements and equipment	(96)	(286)	-	-
Net capital assets	<u>1,103</u>	<u>15</u>	<u>315</u>	<u>638</u>
Total noncurrent assets	<u>1,103</u>	<u>15</u>	<u>315</u>	<u>638</u>
Total assets	<u>1,498</u>	<u>4,010</u>	<u>1,026</u>	<u>2,739</u>
Liabilities				
Current Liabilities				
Accounts payable	-	19	7	5
Accrued payroll liabilities	-	-	-	-
Accrued interest payable	46	-	-	-
Contracts and retainages payable	4,813	-	2,216	-
Notes payable	-	-	-	-
Due to the City of Houston	-	-	-	-
Due to other governments	-	-	-	-
Advances and deposits	-	-	-	-
Compensated absences	-	-	-	-
Other liabilities	238	1,594	-	-
Deferred Revenue	-	-	-	-
Current liabilities payable from restricted assets				
Revenue bonds payable	-	-	-	-
Total current liabilities	<u>5,097</u>	<u>1,613</u>	<u>2,223</u>	<u>5</u>
Noncurrent liabilities				
Notes payable	-	-	-	-
Revenue bonds payable	-	-	-	-
Due to the City of Houston	-	-	-	-
Contracts payable	-	-	-	-
Other long-term liabilities	1,069	-	-	-
Total Noncurrent liabilities	<u>1,069</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,166</u>	<u>1,613</u>	<u>2,223</u>	<u>5</u>
Net assets				
Invested in capital assets, net of related debt	-	-	-	638
Restricted net assets				
Restricted for debt service	-	-	-	-
Restricted for maintenance and operations	-	1,458	-	-
Restricted for capital improvements	-	-	-	-
Other restricted	-	-	-	-
Unrestricted (deficit)	(4,668)	939	(1,197)	2,096
Total net assets (deficit)	<u>\$ (4,668)</u>	<u>\$ 2,397</u>	<u>\$ (1,197)</u>	<u>\$ 2,734</u>

(Continued)

	Greater Greenspoint Redevelopment Authority	Greater Houston Convention & Visitor's Bureau	Gulfgate Redevelopment Authority	Houston Area Library Automated Network Bd	Houston Downtown Park Corporation	Houston Library Board	Houston Parks Board	Houston Business Development Inc.
\$	15,550	\$ 1,703	\$ 964	\$ -	\$ 1,098	\$ 643	\$ 246	\$ 378
	7,657	-	-	3,032	-	17,808	6,370	-
	1,039	2,192	243	2	9,998	1	413	1,273
	197	-	-	-	-	192	-	44
	-	-	-	-	-	-	-	-
	-	5	-	-	-	-	-	-
	-	-	-	-	-	70	-	-
	-	-	-	-	-	149	2,982	-
	24,443	3,900	1,207	3,034	11,096	18,863	10,011	1,695
	-	-	-	-	-	-	-	1,523
	-	-	-	-	-	-	-	7,021
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	8,544
	-	-	5,417	-	56,986	-	8,552	692
	-	532	-	-	-	93	-	9,270
	-	-	-	-	642	-	-	-
	-	(277)	-	-	-	(61)	-	(5,417)
	-	255	5,417	-	57,628	32	8,552	4,545
	-	255	5,417	-	57,628	32	8,552	13,089
	24,443	4,155	6,624	3,034	68,724	18,895	18,563	14,784
	48	1,399	1,475	-	642	62	182	167
	-	-	-	7	-	-	-	-
	289	783	1,697	-	-	-	-	120
	-	-	87	-	-	-	-	-
	-	-	350	-	-	-	-	53
	-	-	-	-	-	-	-	1,016
	-	-	-	49	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	6
	-	74	525	-	-	-	-	-
	-	351	-	-	-	-	-	16
	705	-	-	-	-	-	-	-
	1,042	2,607	4,134	56	642	62	182	1,378
	-	-	4,905	-	-	-	-	55
	17,315	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	4,947
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	40
	17,315	-	4,905	-	-	-	-	5,042
	18,357	2,607	9,039	56	642	62	182	6,420
	-	-	967	-	56,986	32	9,844	4,498
	3,158	-	-	-	-	-	-	1,438
	-	-	-	-	-	-	5,710	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	125
	2,928	1,548	(3,382)	2,978	11,096	16,844	2,827	2,303
\$	6,086	\$ 1,548	\$ (2,415)	\$ 2,978	\$ 68,082	\$ 18,833	\$ 18,381	\$ 8,364

(Continued)

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	Lamar Terrace Public Improvement District	Land Assemblage Redevelopment Authority	Main Street Market Square Redevelopment Authority	Memorial City Redevelopment Authority
Assets				
Current Assets				
Cash	\$ -	\$ 100	\$ 115	\$ 999
Equity in pooled cash and investments	44	-	8,287	1
Receivables, net of allowances				
Accounts receivable	-	5	16	-
Accrued interest and other	-	-	-	-
Due from other governments	24	-	-	-
Inventory	-	-	-	-
Prepaid items	-	5	-	-
Restricted assets				
Investments	-	3,564	-	-
Total current assets	<u>68</u>	<u>3,674</u>	<u>8,418</u>	<u>1,000</u>
Noncurrent Assets				
Restricted assets				
Investments	-	-	-	-
Assessments receivable	-	-	-	-
Deferred charges for issuance cost	-	-	371	-
Total noncurrent restricted assets	<u>-</u>	<u>-</u>	<u>371</u>	<u>-</u>
Capital assets				
Land	-	-	-	-
Buildings, improvements and equipment	-	-	-	-
Construction in progress	-	-	-	-
Less accumulated depreciation				
Buildings, improvements and equipment	-	-	-	-
Net capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>371</u>	<u>-</u>
Total assets	<u>68</u>	<u>3,674</u>	<u>8,789</u>	<u>1,000</u>
Liabilities				
Current Liabilities				
Accounts payable	-	351	154	53
Accrued payroll liabilities	-	-	-	-
Accrued interest payable	-	-	379	-
Contracts and retainages payable	11	-	-	-
Notes payable	-	-	3,945	-
Due to the City of Houston	-	-	-	-
Due to other governments	-	-	-	-
Advances and deposits	-	-	-	-
Compensated absences	-	-	-	-
Other liabilities	-	400	-	-
Deferred revenue	77	-	-	-
Current liabilities payable from restricted assets				
Revenue bonds payable	-	-	475	-
Total current liabilities	<u>88</u>	<u>751</u>	<u>4,953</u>	<u>53</u>
Noncurrent liabilities				
Notes payable	-	-	-	-
Revenue bonds payable	-	-	10,985	-
Due to the City of Houston	-	-	-	-
Contracts payable	-	-	-	-
Other long-term liabilities	-	-	-	-
Total Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>10,985</u>	<u>-</u>
Total liabilities	<u>88</u>	<u>751</u>	<u>15,938</u>	<u>53</u>
Net assets				
Invested in capital assets, net of related debt	-	-	-	-
Restricted net assets				
Restricted for debt service	-	-	2,165	-
Restricted for maintenance and operations	-	-	-	-
Restricted for capital improvements	-	-	-	-
Other restricted	-	2,813	-	-
Unrestricted (deficit)	(20)	110	(9,314)	947
Total net assets (deficit)	<u>\$ (20)</u>	<u>\$ 2,923</u>	<u>\$ (7,149)</u>	<u>\$ 947</u>

(Continued)

Memorial- Heights Redevelopment Authority	Midtown Redevelopment Authority	Old Sixth Ward Redevelopment Authority	OST/Alameda Corridors Redevelopment Authority	Saint George Place Redevelopment Authority	Sharpstown Economic Development Authority
1,601	\$ 9,853	\$ 396	\$ 7	\$ 668	\$ 127
-	25,784	-	9,044	301	-
697	2,689	295	1,167	1,135	325
-	-	-	265	-	-
-	-	-	-	-	-
-	10,542	-	-	-	-
-	-	-	-	-	15
-	-	-	-	-	-
2,298	48,868	691	10,483	2,104	467
-	-	-	-	-	-
-	-	-	-	-	-
-	2,461	-	520	251	-
-	2,461	-	520	251	-
-	3,551	-	2,248	-	-
-	3,388	-	17	-	-
-	2,530	-	-	-	-
-	(578)	-	(10)	-	-
-	8,891	-	2,255	-	-
-	11,352	-	2,775	251	-
2,298	60,220	691	13,258	2,355	467
-	643	6	215	77	5
-	-	-	-	-	-
162	1,446	23	-	44	-
-	-	-	-	-	-
-	698	86	-	602	-
-	-	-	-	-	-
3,096	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	284	-
-	1,860	-	335	-	-
3,258	4,647	115	550	1,007	5
-	3,855	756	-	2,697	49
-	55,595	-	6,935	-	-
-	-	-	-	5,504	-
-	-	-	-	-	-
-	-	-	-	-	-
-	59,450	756	6,935	8,201	49
3,258	64,097	871	7,485	9,208	54
-	5,244	-	2,255	-	-
-	9,537	-	1,357	258	-
-	-	-	-	-	-
-	13,731	-	-	-	-
-	13,738	-	-	189	-
(960)	(46,127)	(180)	2,161	(7,300)	413
\$ (960)	\$ (3,877)	\$ (180)	\$ 5,773	\$ (6,853)	\$ 413

(Continued)

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	South Post Oak Redevelopment Authority	Southwest Houston Redevelopment Authority	Upper Kirby Redevelopment Authority	Uptown Development Authority	Total
Assets					
Current Assets					
Cash	\$ 487	\$ 1	\$ 51	\$ 7,985	\$ 46,152
Equity in pooled cash and investments	-	8,121	9,719	2,817	100,629
Receivables, net of allowances					
Accounts receivable	132	-	-	-	23,983
Accrued interest and other	-	-	-	-	698
Due from other governments	-	-	-	3,195	3,219
Inventory	-	-	-	-	10,547
Prepaid items	-	1	-	-	108
Restricted assets					
Investments	-	-	-	-	6,695
Total current assets	<u>619</u>	<u>8,123</u>	<u>9,770</u>	<u>13,997</u>	<u>192,031</u>
Noncurrent Assets					
Restricted assets					
Investments	-	-	-	-	1,523
Assessments receivable	-	-	-	-	7,021
Deferred charges for issuance cost	-	789	-	1,283	5,675
Total noncurrent restricted assets	<u>-</u>	<u>789</u>	<u>-</u>	<u>1,283</u>	<u>14,219</u>
Capital assets					
Land	-	60	-	550	79,008
Buildings, improvements and equipment	-	-	-	-	14,801
Construction in progress	-	-	-	-	3,172
Less accumulated depreciation and					
Buildings, improvements and equipment	-	-	-	-	(6,725)
Net capital assets	<u>-</u>	<u>60</u>	<u>-</u>	<u>550</u>	<u>90,256</u>
Total noncurrent assets	<u>-</u>	<u>849</u>	<u>-</u>	<u>1,833</u>	<u>104,475</u>
Total assets	<u>619</u>	<u>8,972</u>	<u>9,770</u>	<u>15,830</u>	<u>296,506</u>
Liabilities					
Current Liabilities					
Accounts payable	1	460	44	2,018	8,033
Accrued payroll liabilities	-	-	-	-	7
Accrued interest payable	836	176	-	696	6,697
Contracts and retainages payable	-	3,846	-	-	10,973
Notes payable	-	480	-	2,754	8,968
Due to the City of Houston	-	-	-	-	1,016
Due to other governments	-	-	-	3,237	3,286
Advances and deposits	-	-	-	-	3,096
Compensated absences	-	-	-	-	6
Other liabilities - current	-	66	-	-	2,897
Deferred revenue	-	-	-	-	728
Current liabilities payable from restricted assets					
Revenue bonds payable	-	-	-	1,505	4,880
Total current liabilities	<u>837</u>	<u>5,028</u>	<u>44</u>	<u>10,210</u>	<u>50,587</u>
Noncurrent liabilities					
Notes payable	-	11,880	-	-	24,197
Revenue bonds payable	-	-	-	37,220	128,050
Due to the City of Houston	-	-	-	-	10,451
Contracts payable	5,709	-	-	-	5,709
Other long-term liabilities	-	-	-	-	1,109
Total Noncurrent liabilities	<u>5,709</u>	<u>11,880</u>	<u>-</u>	<u>37,220</u>	<u>169,516</u>
Total liabilities	<u>6,546</u>	<u>16,908</u>	<u>44</u>	<u>47,430</u>	<u>220,103</u>
Net Assets					
Investment in capital assets, net of related debt	-	-	-	550	81,014
Restricted net assets					
Restricted for debt service	-	1,054	-	6,150	25,117
Restricted for maintenance and operations	-	-	-	-	7,168
Restricted for capital improvements	-	3,333	-	-	17,064
Other restricted	-	-	-	-	33,709
Unrestricted	(5,927)	(12,323)	9,726	(38,300)	(87,669)
Total net assets (deficit)	<u>\$ (5,927)</u>	<u>\$ (7,936)</u>	<u>\$ 9,726</u>	<u>\$ (31,600)</u>	<u>\$ 76,403</u>

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Activities
For the Year Ended June 30, 2006
amounts expressed in thousands

Net (Expense) Revenue and Change in Net Assets

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Park Redevelopment Authority	Houston Arts Alliance (Fmrly Cultural Arts Council of Houston & Harris County)
Component Units						
City Park Redevelopment Authority	\$ 408	\$ -	\$ -	\$ -	\$ (408)	\$ -
Houston Arts Alliance (Fmrly Cultural Arts Council of Hou/Harris Cnty)	9,785	115	10,320	-	-	650
East Downtown Redevelopment Authority	286	-	-	-	-	-
Fourth Ward Redevelopment Authority	115	-	-	-	-	-
Greater Greenspoint Redevelopment Authority	2,065	-	-	-	-	-
Greater Houston Convention and Visitor's Bureau	12,873	552	12,007	-	-	-
Gulfgate Redevelopment Authority	780	-	-	-	-	-
HALAN	1,583	-	1,296	-	-	-
Houston Downtown Park Corporation	7,534	-	6,073	-	-	-
Houston Library Board	1,363	-	1,136	-	-	-
Houston Parks Board	2,536	-	4,318	492	-	-
Houston Business Development Corporation	2,180	1,111	124	-	-	-
Lamar Terrace Public Improvement District	2	-	-	-	-	-
Land Assemblage Redevelopment Authority	164	-	1,200	-	-	-
Main Street Market Square Redevelopment Authority	2,659	-	-	-	-	-
Memorial City Redevelopment Authority	1,660	-	-	-	-	-
Memorial-Heights Redevelopment Authority	364	-	-	-	-	-
Midtown Redevelopment Authority	10,881	-	2,056	-	-	-
Old Sixth Ward Redevelopment Authority	101	-	-	-	-	-
OST/Almeda Corridors Redevelopment Authority	1,000	-	-	-	-	-
Saint George Place Redevelopment Authority	957	-	-	-	-	-
Sharpstown Economic Development Authority	361	-	-	-	-	-
South Post Oak Redevelopment Authority	522	-	-	-	-	-
Southwest Houston Redevelopment Authority	3,494	-	-	-	-	-
Upper Kirby Redevelopment Authority	863	-	-	-	-	-
Uptown Development Authority	9,640	-	-	-	-	-
Total component units	74,176	1,778	38,530	\$ 492	(408)	650
General Revenues:						
Taxes						
Property Taxes - general purposes / tax increments					412	-
Contributions					-	-
Unrestricted investment earnings (loss)					3	-
Other					-	58
Transfers					-	-
Total general revenues, special items, and transfers					415	58
Change in net assets					7	708
Net Assets (deficit) beginning					(4,675)	1,689
New Component Unit & Restatement						
Net Assets (deficit) ending					\$ (4,668)	\$ 2,397

(Continued)

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Activities
For the Year Ended June 30, 2006
amounts expressed in thousands

Net (Expense) Revenue and Change in net Assets				
Functions/Programs	Houston Business Development Inc.	Lamar Terrace Public Improvement District	Land Assemblage Redevelopment Authority	Main Street Market Square Redevelopment Authority
Component Units				
City Park Redevelopment Authority	\$ -	\$ -	\$ -	\$ -
Cultural Arts Council of Houston/Harris County	-	-	-	-
East Downtown Redevelopment Authority	-	-	-	-
Fourth Ward Redevelopment Authority	-	-	-	-
Greater Greenspoint Redevelopment Authority	-	-	-	-
Greater Houston Convention and Visitor's Bureau	-	-	-	-
Gulfgate Redevelopment Authority	-	-	-	-
HALAN	-	-	-	-
Houston Downtown Park Corporation	-	-	-	-
Houston Library Board	-	-	-	-
Houston Parks Board	-	-	-	-
Houston Business Development Corporation	(945)	-	-	-
Lamar Terrace Public Improvement District	-	(2)	-	-
Land Assemblage Redevelopment Authority	-	-	1,036	-
Main Street Market Square Redevelopment Authority	-	-	-	(2,659)
Memorial City Redevelopment Authority	-	-	-	-
Memorial-Heights Redevelopment Authority	-	-	-	-
Midtown Redevelopment Authority	-	-	-	-
Old Sixth Ward Redevelopment Authority	-	-	-	-
OST/Almeda Corridors Redevelopment Authority	-	-	-	-
Saint George Place Redevelopment Authority	-	-	-	-
Sharpstown Economic Development Authority	-	-	-	-
South Post Oak Redevelopment Authority	-	-	-	-
Southwest Houston Redevelopment Authority	-	-	-	-
Upper Kirby Redevelopment Authority	-	-	-	-
Uptown Development Authority	-	-	-	-
Total component units	(945)	(2)	1,036	(2,659)
General Revenues:				
Taxes				
Property Taxes - general purposes / tax increments	-	-	-	4,010
Contributions	-	-	-	-
Unrestricted investment earnings (loss)	630	3	-	214
Other	89	-	1,887	135
Transfers	-	-	-	-
	-	-	-	-
Total general revenues, special items, and transfers	719	3	1,887	4,359
Change in net assets	(226)	1	2,923	1,700
Net Assets (deficit) beginning	8,590	(21)	-	(8,849)
New Component Unit & Restatement	-	-	-	-
Net Assets (deficit) ending	\$ 8,364	\$ (20)	\$ 2,923	\$ (7,149)

(Continued)

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Activities
For the Year Ended June 30, 2006
amounts expressed in thousands

Net (Expense) Revenue and Change in Net Assets

Functions/Programs	Southwest Houston Redevelopment Authority	Upper Kirby Redevelopment Authority	Uptown Development Authority	Total
Component Units				
City Park Redevelopment Authority	\$ -	\$ -	\$ -	\$ (408)
Cultural Arts Council of Houston/Harris County	-	-	-	650
East Downtown Redevelopment Authority	-	-	-	(286)
Fourth Ward Redevelopment Authority	-	-	-	(115)
Greater Greenspoint Redevelopment Authority	-	-	-	(2,065)
Greater Houston Convention and Visitor's Bureau	-	-	-	(314)
Gulfgate Redevelopment Authority	-	-	-	(780)
HALAN	-	-	-	(287)
Houston Downtown Park Corporation	-	-	-	(1,461)
Houston Library Board	-	-	-	(227)
Houston Parks Board	-	-	-	2,274
Houston Business Development Corporation	-	-	-	(945)
Lamar Terrace Public Improvement District	-	-	-	(2)
Land Assemblage Redevelopment Authority	-	-	-	1,036
Main Street Market Square Redevelopment Authority	-	-	-	(2,659)
Memorial City Redevelopment Authority	-	-	-	(1,660)
Memorial-Heights Redevelopment Authority	-	-	-	(364)
Midtown Redevelopment Authority	-	-	-	(8,825)
Old Sixth Ward Redevelopment Authority	-	-	-	(101)
OST/Almeda Corridors Redevelopment Authority	-	-	-	(1,000)
Saint George Place Redevelopment Authority	-	-	-	(957)
Sharpstown Economic Development Authority	-	-	-	(361)
South Post Oak Redevelopment Authority	-	-	-	(522)
Southwest Houston Redevelopment Authority	(3,494)	-	-	(3,494)
Upper Kirby Redevelopment Authority	-	(863)	-	(863)
Uptown Development Authority	-	-	(9,640)	(9,640)
Total component units	(3,494)	(863)	(9,640)	(33,376)
General Revenues:				
Taxes				
Property Taxes - general purposes / tax increments	1,972	4,525	7,846	43,968
Contributions	-	-	-	369
Unrestricted investment earnings	370	241	259	5,759
Other	-	-	-	2,650
Transfers	-	-	-	-
Total general revenues, special items, and transfers	2,342	4,766	8,105	52,746
Change in net assets	(1,152)	3,903	(1,535)	19,370
Net Assets ending	(6,784)	5,823	(30,065)	57,033
New Component Unit & Restatement	-	-	-	-
Net Assets ending	\$ (7,936)	\$ 9,726	\$ (31,600)	\$ 76,403

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS TYPE
Combining Statement of Net Assets
June 30, 2006
amounts expressed in thousands

	Houston Convention Center Hotel Corp.	Houston Housing Finance Corp	Houston Zoo Inc.	Total
Assets				
Current assets				
Cash	\$ 14,723	\$ 998	\$ 1,375	\$ 17,096
Investments	-	14,701	3,899	18,600
Receivables, net of allowances				
Accounts receivable	3,610	4,648	14,157	22,415
Accrued interest and other	-	294	-	294
Due from other governments	1,464	-	-	1,464
Inventory	348	-	-	348
Prepaid items	951	-	137	1,088
Restricted assets				
Investments	-	-	11,432	11,432
Other receivables	-	1,575	-	1,575
Total current assets	<u>21,096</u>	<u>22,216</u>	<u>31,000</u>	<u>74,312</u>
Noncurrent Assets				
Restricted assets				
Cash and cash equivalents	-	2	-	2
Investments	-	1,170	-	1,170
Accrued interest receivable	-	403	-	403
Amounts held by other governments	22,080	-	-	22,080
Receivable and deposits	-	2,992	-	2,992
Other debits				
Deferred charges for issuance cost	3,136	-	-	3,136
Other long-term receivables	-	13,768	-	13,768
Total noncurrent assets	<u>25,216</u>	<u>18,335</u>	<u>-</u>	<u>43,551</u>
Capital assets				
Land	11,488	-	-	11,488
Buildings, improvements and equipment	280,900	-	13,827	294,727
Construction in progress	-	-	4,957	4,957
Less accumulated depreciation				
Buildings, improvements and equipment	(27,708)	-	(2,981)	(30,689)
Net capital assets	<u>264,680</u>	<u>-</u>	<u>15,803</u>	<u>280,483</u>
Total noncurrent assets	<u>289,896</u>	<u>18,335</u>	<u>15,803</u>	<u>324,034</u>
Total assets	<u>310,992</u>	<u>40,551</u>	<u>46,803</u>	<u>398,346</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	9,082	85	1,432	10,599
Accrued payroll liabilities	-	-	631	631
Contracts and retainages payable	-	-	745	745
Notes payable	-	345	-	345
Due to City of Houston	11,015	-	-	11,015
Deferred revenue	737	-	242	979
Total current liabilities	<u>20,834</u>	<u>430</u>	<u>3,050</u>	<u>24,314</u>
Noncurrent liabilities				
Due to City of Houston	296,315	2,280	-	298,595
Notes payable	2,094	-	-	2,094
Other long-term liabilities	-	198	-	198
Deferred revenue	16,872	-	-	16,872
Total noncurrent liabilities	<u>315,281</u>	<u>2,478</u>	<u>-</u>	<u>317,759</u>
Total liabilities	<u>336,115</u>	<u>2,908</u>	<u>3,050</u>	<u>342,073</u>
Net assets				
Investment in capital assets, net of related debt	(30,386)	-	-	(30,386)
Restricted net assets				
Restricted for debt service	12,624	1,359	-	13,983
Other restricted	-	31	27,857	27,888
Unrestricted (deficit)	(7,361)	36,253	15,896	44,788
Total net assets (deficit)	<u>\$ (25,123)</u>	<u>\$ 37,643</u>	<u>\$ 43,753</u>	<u>\$ 56,273</u>

CITY OF HOUSTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS-TYPE
Combining Statement of Activities
For the Year Ended June 30, 2006
amounts expressed in thousands

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Component Units			
Houston Convention Center Hotel Corp.	\$ 37,129	\$ 28,831	\$ -
Houston Housing Finance Corp.	2,748	584	13,040
Houston Zoo Inc.	19,521	17,559	21,267
Totals	<u>\$ 59,398</u>	<u>\$ 46,974</u>	<u>\$ 34,307</u>

General Revenues:

Taxes
Property Taxes levied for general purposes/tax increments
Unrestricted investment earnings
Other
Total general revenues, special items, and transfers
Change in net assets
Net Assets (deficit) beginning
Net Assets (deficit) ending

(Continued)

Net (Expense) Revenue and Change in Net Assets

Houston Convention Center Hotel	Houston Housing Finance Corp.	Houston Zoo Inc.	Total
\$ (8,298)	\$ -	\$ -	\$ (8,298)
-	10,876	-	10,876
-	-	19,305	19,305
<u>(8,298)</u>	<u>10,876</u>	<u>19,305</u>	<u>21,883</u>
-	750	-	750
676	1,020	326	2,022
4,215	-	-	4,215
<u>4,891</u>	<u>1,770</u>	<u>326</u>	<u>6,987</u>
(3,407)	12,646	19,631	28,870
(21,716)	24,997	24,122	27,403
<u>\$ (25,123)</u>	<u>\$ 37,643</u>	<u>\$ 43,753</u>	<u>\$ 56,273</u>

CITY OF HOUSTON, TEXAS
Discretely Presented Component Units - Business-Type
Statement of Cash Flows
For the Year Ended June 30, 2006
amounts expressed in thousands

	Houston Convention Center Hotel Corporation	Houston Housing Finance Corp.	Houston Zoo Inc.	Total Component Units
Cash flows from operating activities				
Receipts from customers	\$ 30,983	\$ 2,393	\$ (101)	\$ 33,275
Payments to employees	-	-	(262)	(262)
Payments to suppliers	-	(29)	796	767
Other revenues	-	-	2,029	2,029
Other expenses	(23,220)	(2,035)	(63)	(25,318)
Net cash provided by operating activities	<u>7,763</u>	<u>329</u>	<u>2,399</u>	<u>10,491</u>
Cash flows from investing activities				
Advances on long-term receivables	-	(1,571)	-	(1,571)
Interest income on investments	676	-	-	676
Purchase of investments	(15,373)	(43,661)	(11,314)	(70,348)
Proceeds from sale of investments	16,250	41,959	-	58,209
Collection of long-term receivables	-	2,159	-	2,159
Net cash provided by investing activities	<u>1,553</u>	<u>(1,114)</u>	<u>(11,314)</u>	<u>(10,875)</u>
Cash flows from capital and related financing activities				
Contributed capital	-	-	10,755	10,755
Acquisition of property, plant and equipment	(222)	-	-	(222)
Interest expense	(6,928)	-	-	(6,928)
Receipt of tax rebates	3,197	-	-	3,197
Payments to the City of Houston	(6,792)	-	-	(6,792)
Net cash provided by (used for) capital and related financing activities	<u>(10,745)</u>	<u>-</u>	<u>10,755</u>	<u>10</u>
Cash flows from noncapital financing activities				
Excess funds from Bond Series	-	1,099	-	1,099
Payments on notes payable	-	(320)	-	(320)
Net cash provided by noncapital financing activities	<u>-</u>	<u>779</u>	<u>-</u>	<u>779</u>
Net increase (decrease) in cash and cash equivalents	(1,429)	(6)	1,840	405
Cash and cash equivalents, July 1	16,153	1,006	3,435	20,594
Cash and cash equivalents, June 30	<u>\$ 14,724</u>	<u>\$ 1,000</u>	<u>\$ 5,275</u>	<u>\$ 20,999</u>
Non cash transactions				
Total non cash transactions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (Loss)	\$ (972)	\$ 166	\$ 19,632	18,826
Depreciation and amortization	6,496	201	1,065	7,762
Other revenues	-	-	107	107
Other expenses	-	-	(18,773)	(18,773)
Changes in assets and liabilities:				
Accounts receivable	1,322	39	135	1,496
Inventory	15	-	-	15
Other assets	727	-	(300)	427
Accounts payable and accrued expenses	(734)	(71)	795	(10)
Accrued payroll liabilities	1,078	-	(262)	816
Accrued interest on contracts payable	-	(6)	-	(6)
Other revenues	-	-	-	-
Other long-term liabilities	(169)	-	-	(169)
Net cash provided by (used for) operating activities	<u>\$ 7,763</u>	<u>\$ 329</u>	<u>\$ 2,399</u>	<u>\$ 10,491</u>

Statistical Section

(Unaudited)

This part of the City's Statistical comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Content</u>	<u>Page</u>
Financial Trends	192
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	204
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	211
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	219
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	226
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

CITY OF HOUSTON, TEXAS
NET ASSETS BY COMPONENT
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 3,327,146	\$ 3,354,457	\$ 3,388,360	\$ 3,531,764	\$ 3,340,355
Restricted	210,954	197,977	205,999	168,803	159,092
Unrestricted	(192,498)	(185,622)	(386,480)	(861,603)	(727,282)
Total governmental activities net assets	<u>\$ 3,345,602</u>	<u>\$ 3,366,812</u>	<u>\$ 3,207,879</u>	<u>\$ 2,838,964</u>	<u>\$ 2,772,165</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 1,129,433	\$ 1,068,562	\$ 1,361,202	\$ 1,138,154	\$ 976,834
Restricted	1,206,782	1,006,121	501,271	461,738	545,792
Unrestricted	(248,143)	(70,890)	(12,537)	87,494	99,666
Total business-type activities net assets	<u>\$ 2,088,072</u>	<u>\$ 2,003,793</u>	<u>\$ 1,849,936</u>	<u>\$ 1,687,386</u>	<u>\$ 1,622,292</u>
Primary government					
Invested in capital assets, net of related debt	\$ 4,456,579	\$ 4,423,019	\$ 4,749,562	\$ 4,669,918	\$ 4,317,189
Restricted	1,417,736	1,204,098	707,270	630,541	704,884
Unrestricted	(440,641)	(256,512)	(399,017)	(774,109)	(627,616)
Total primary government net assets	<u>\$ 5,433,674</u>	<u>\$ 5,370,605</u>	<u>\$ 5,057,815</u>	<u>\$ 4,526,350</u>	<u>\$ 4,394,457</u>

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
CHANGES IN NET ASSETS
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses					
Governmental activities:					
General government	\$ 225,950	\$ 150,374	\$ 234,176	\$ 143,477	\$ 130,807
Public safety	616,324	818,129	902,527	1,127,663	1,102,253
Public works	293,757	238,323	251,423	282,767	266,723
Health	107,783	99,617	105,247	124,267	102,716
Housing and community development	57,482	48,393	62,956	78,867	318,450
Parks and recreation	91,034	84,446	63,156	83,945	72,309
Library	40,723	38,282	38,481	49,084	37,242
Retiree benefits	17,787	21,440	26,581	28,997	-
Interest in long-term debt	94,511	98,042	95,779	116,180	136,563
Depreciation and amortization	108,998	119,475	85,711	96,355	125,517
Total governmental activities expenses	<u>1,654,349</u>	<u>1,716,521</u>	<u>1,866,037</u>	<u>2,131,602</u>	<u>2,292,580</u>
Business-type activities :					
Airport System	227,248	265,987	315,929	406,908	431,392
Convention & Entertainment Facilities	83,141	76,760	91,588	133,622	99,271
Combined Utility System	636,824	649,247	681,201	762,209	752,122
Houston Area Water Corporation	17	153	160	169	17,428
Total business-type activities expenses	<u>947,230</u>	<u>992,147</u>	<u>1,088,878</u>	<u>1,302,908</u>	<u>1,300,213</u>
Total primary government expenses	<u>\$2,601,579</u>	<u>\$2,708,668</u>	<u>\$2,954,915</u>	<u>\$3,434,510</u>	<u>\$3,592,793</u>
Program Revenues					
Governmental activities:					
Charges for services:	\$ 188,662	\$ 197,884	\$ 219,105	\$ 229,360	\$ 225,870
Operating grants and contributions	148,432	137,590	143,864	162,310	467,956
Capital grants and contributions	27,051	6,123	143,865	37,591	69,438
Total governmental activities program revenues	<u>364,145</u>	<u>341,597</u>	<u>506,834</u>	<u>429,261</u>	<u>763,264</u>
Business-type activities:					
Charges for services:					
Airport System	227,455	240,767	270,413	353,641	393,861
Convention & Entertainment Facilities	15,521	17,010	17,145	19,175	19,599
Combined Utility System	543,396	539,317	531,208	598,874	642,662
Houston Area Water Corporation	-	-	-	-	-
Operating grants and contributions	-	-	22,516	4,297	4,020
Capital grants and contributions	65,579	48,339	42,000	106,484	109,728
Total business-type activities program revenues	<u>851,951</u>	<u>845,433</u>	<u>883,282</u>	<u>1,082,471</u>	<u>1,169,870</u>
Total primary government program revenues	<u>\$ 1,216,096</u>	<u>\$ 1,187,030</u>	<u>\$ 1,390,116</u>	<u>\$ 1,511,732</u>	<u>\$ 1,933,134</u>
Net (expense)/revenue					
Governmental activities	\$ (1,290,204)	\$ (1,374,924)	\$ (1,359,203)	\$ (1,702,341)	\$ (1,529,316)
Business-type activities	(95,279)	(146,714)	(205,596)	(220,437)	(130,343)
Total primary government net expense	<u>\$ (1,385,483)</u>	<u>\$ (1,521,638)</u>	<u>\$ (1,564,799)</u>	<u>\$ (1,922,778)</u>	<u>\$ (1,659,659)</u>

Continued

CITY OF HOUSTON, TEXAS
CHANGES IN NET ASSETS
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

**General Revenues and Other Changes in
Net Assets**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:					
Taxes					
Property taxes	\$ 626,850	\$ 639,888	\$ 645,536	\$ 664,831	\$ 700,788
Industrial assessments tax	15,642	15,014	15,167	14,635	14,314
Sales taxes	341,952	322,538	347,982	370,583	422,598
Franchise taxes	175,360	160,673	161,378	162,263	186,508
Mixed beverage taxes	7,514	7,572	8,095	8,343	9,000
Bingo taxes	251	246	253	270	279
Investment earnings	23,918	16,550	5,139	13,179	19,889
Other	24,822	42,074	31,894	27,652	33,674
Contributions	1,483	101,750	40,192	11,216	-
Special Items - gain (loss) on sale of assets	3,546	3,346	3,095	2,071	4,816
Transfers	99,817	86,583	39,067	58,383	70,651
Total governmental activities	<u>1,321,155</u>	<u>1,396,234</u>	<u>1,297,798</u>	<u>1,333,426</u>	<u>1,462,517</u>
Business-type activities:					
Hotel occupancy taxes	43,452	43,169	47,223	42,266	54,765
Investment earnings	103,072	68,632	25,965	43,866	54,212
Other	35,789	33,776	30,561	30,138	26,923
Contributions	-	4,979	-	-	-
Special Items - gain (loss) on sale of assets	(9,975)	(1,338)	(12,943)	-	-
Transfers	(99,817)	(86,583)	(39,067)	(58,383)	(70,651)
Total business-type activities	<u>72,521</u>	<u>62,635</u>	<u>51,739</u>	<u>57,887</u>	<u>65,249</u>
Total primary government	<u>\$ 1,393,676</u>	<u>\$ 1,458,869</u>	<u>\$ 1,349,537</u>	<u>\$ 1,391,313</u>	<u>\$ 1,527,766</u>
Change in Net Assets					
Governmental activities	\$ 30,951	\$ 21,310	\$ (61,405)	\$ (368,915)	\$ (66,799)
Business-type activities	<u>(22,758)</u>	<u>(84,079)</u>	<u>(153,857)</u>	<u>(162,550)</u>	<u>(65,094)</u>
Total primary government	<u>\$ 8,193</u>	<u>\$ (62,769)</u>	<u>\$ (215,262)</u>	<u>\$ (531,465)</u>	<u>\$ (131,893)</u>

CITY OF HOUSTON, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General fund				
Reserved	\$ 6,369	\$ 6,514	\$ 17,769	\$ 12,956
Unreserved	84,105	106,856	89,487	70,668
Total general fund	<u>\$ 90,474</u>	<u>\$113,370</u>	<u>\$ 107,256</u>	<u>\$ 83,624</u>
All other governmental funds				
Reserved	\$ 88,383	\$ 90,033	\$ 99,746	\$ 92,177
Unreserved , reported in:				
Special revenue funds	21,724	23,215	31,167	33,519
Capital projects funds	69,300	72,673	59,550	57,369
Permanent funds	-	-	-	-
Total all other governmental funds	<u>\$ 179,407</u>	<u>\$185,921</u>	<u>\$ 190,463</u>	<u>\$ 183,065</u>

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 9,518	\$ 30,756	\$ 30,935	\$ 24,947	\$ 27,449	\$ 51,671
81,482	85,282	105,101	110,778	142,695	198,759
<u>\$ 91,000</u>	<u>\$ 116,038</u>	<u>\$ 136,036</u>	<u>\$ 135,725</u>	<u>\$ 170,144</u>	<u>\$ 250,430</u>
\$ 93,246	\$ 122,480	\$ 169,660	\$ 171,252	\$ 200,374	\$ 179,267
28,981	48,428	63,997	55,760	67,691	66,407
56,417	62,864	-	-	-	-
-	-	-	-	-	-
<u>\$ 178,644</u>	<u>\$ 233,772</u>	<u>\$ 233,657</u>	<u>\$ 227,012</u>	<u>\$ 268,065</u>	<u>\$ 245,674</u>

CITY OF HOUSTON
GENERAL FUND BUDGET FOR FISCAL YEAR 2007
(amounts expressed in thousands)
(unaudited)

Budgeted Resources	Amount (in thousands)
Revenues:	
Ad Valorem Taxes (current and delinquent)	730,520
Sales and Use Tax	431,219
Franchise Fees	180,008
Municipal Courts Fines and Forfeits	47,726
Miscellaneous	205,149
Total Current Revenues	1,594,622
Beginning Fund Balance as of July 1, 2006 (a)	173,421
Pension Bond Proceeds	63,000
Transfers from Other Funds	2,450
Total Budgeted Resources	\$ 1,833,493

Budgeted Expenditures	
Administrative Services and Public Finance	\$ 70,949
Public Safety	967,778
Development and Maintenance Services	208,850
Human and Cultural Services	148,266
General Government	72,576
Transfers to Debt Service Fund	209,000
Transfer out	-
Total Budgeted Expenditures	1,677,419
Designated "Sign Abatement" Amount	2,070
Designated "Rainy Day" Amount	20,000
Budgeted Ending Fund Balance as of June 30, 2007	134,004
Total Budgeted Expenditures and Reserves	\$ 1,833,493

(a) This amount represents an estimate of the beginning fund balance which was used in preparing the Fiscal Year 2007 Budget.

CITY OF HOUSTON, TEXAS
June 30, 2006
CONTINUING DEBT DISCLOSURE INFORMATION
(amounts expressed in thousands)
(unaudited)

Capital Improvement Plan

The 2007-2011 CIP consists of the projects and facilities described in the following chart. (The 2007-2011 CIP also includes proposed improvements for the Combined Utility System, Airport System and Convention and Entertainment Facilities, which are financed primarily with revenues of those enterprise systems and, therefore, are not included in the table below).

	Amount (in thousands)
Streets, Bridges and Traffic Control	\$ 1,052,225
Storm Sewers and Drainage	261,398
Parks and Recreation	154,451
Police Department	386,305
Fire Department	100,806
General Government	40,352
Public Library	82,929
Public Health	128,032
Solid Waste Management	18,132
Low Income Housing	<u>43,018</u>
Total	<u>\$ 2,267,648</u> (*)

(*) The tax-supported component of the 2007-2011 CIP addresses a full range of capital facility and infrastructure improvements. The voter authorized improvements are expected to be initially financed with Commercial Paper Notes. The remaining amount is expected to be funded by grants, funds from agencies participating in joint capital improvement projects with the City and various other sources.

General Fund Indirect Charges to Other City Funds

A charge is made by the General Fund to the Water and Sewer System, Airport System, and Convention and Entertainment Facilities Funds, and to certain grant and special revenue funds for indirect charges incurred by the General Fund on behalf of such funds

Fiscal Year	Total Indirect Charges (in thousands)
2006	\$ 14,895
2005	11,031
2004	14,647
2003	15,859
2002	14,980

CITY OF HOUSTON

CONTINUING DEBT DISCLOSURE INFORMATION

(amounts expressed in thousands)

(unaudited)

	Fiscal Year 2006
	(in thousands)
Long-Term Disability Fund	
Assets Available for Future Long-Term Disability Obligations	\$ 7,968
Claims Payable on Long-Term Disability Obligations	(7,080)
Unrestricted Net Assets	\$ 888

	Fiscal Year 2006
	(in thousands)
Compensated Absence Liability	
General Fund Short-Term Liability	\$ 2,606
Other Governmental Short-Term Liability	114,748
Enterprise Funds Liability	23,070
Internal Service Funds Liability	151
Governmental Funds Long-Term Liability	238,355
Total	\$ 378,930

General Fund Specific Charges to Other City Funds

An additional charge made by the General Fund to the Combined Utility System, Airport, Convention and Entertainment Facilities Funds, the Capital Projects Fund and certain other funds of the City for specific services provided to such funds by the General Fund.

<u>Fiscal Year</u>	<u>Charges for Specific Services (in thousands)</u>
2006	\$ 58,298
2005	69,217
2004	57,056
2003	62,099
2002	73,109

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues				
Taxes	\$ 855,805	\$ 917,493	\$ 973,543	\$ 1,028,344
Licenses and permits	26,790	29,370	30,588	30,621
Intergovernmental	161,426	171,151	165,998	153,804
Charges for services	119,260	126,335	125,740	126,130
Fines	43,449	48,181	53,320	43,977
Investment earnings	16,050	20,092	18,613	17,118
Contributions	17,563	173	238	2,484
Other	28,361	34,851	22,026	22,736
Total revenues	<u>1,268,704</u>	<u>1,347,646</u>	<u>1,390,066</u>	<u>1,425,214</u>
Expenditures				
General Government	93,895	97,596	94,109	101,135
Public safety	576,479	604,789	642,782	672,737
Public Works	193,002	202,473	206,542	219,300
Health	53,536	54,228	55,201	56,547
Housing and Community Development	-	-	-	-
Parks and recreation	54,241	56,386	56,728	61,778
Library	27,983	31,057	33,823	35,758
Retiree benefits	8,720	9,133	8,941	9,597
Other Current Expenditures	27,358	31,544	35,229	35,089
Capital Outlay	159,514	222,498	169,060	188,429
Intergovernmental - grants	97,519	102,957	115,224	111,158
Debt Service				
Principal	100,725	91,940	93,627	104,710
Interest	80,539	82,763	85,644	91,847
Fiscal agent and fees	1,019	4,197	1,917	2,099
Advanced refunding escrow	-	-	2,985	-
Total expenditures	<u>1,474,530</u>	<u>1,591,561</u>	<u>1,601,812</u>	<u>1,690,184</u>
Excess of revenues over (under) expenditures	(205,826)	(243,915)	(211,746)	(264,970)
Other financing sources (uses)				
Transfers in	181,846	206,481	218,893	230,087
Transfers out	(121,265)	(141,338)	(160,324)	(172,776)
Proceeds from issuance of debt	130,250	445,588	488,748	176,012
Proceeds from refunded debt	-	-	-	-
Payment to escrow agent	-	(243,792)	(327,489)	-
Sale of land	-	-	-	-
Bond premium	-	-	-	-
Other financing sources (uses)	-	-	(10,000)	-
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	<u>190,831</u>	<u>266,939</u>	<u>209,828</u>	<u>233,323</u>
Net change in fund balances	<u>\$ (14,995)</u>	<u>\$ 23,024</u>	<u>\$ (1,918)</u>	<u>\$ (31,647)</u>
Debt service as a percentage of noncapital expenditures	13.9%	13.1%	12.9%	13.2%

	2001	2002	2003	2004	2005	2006
\$	1,102,177	\$ 1,163,820	\$ 1,142,071	\$ 1,193,874	\$ 1,227,388	\$ 1,338,651
	31,606	33,102	35,046	36,286	40,240	42,524
	175,769	160,718	154,598	189,974	187,372	512,279
	128,164	148,520	151,397	164,581	156,290	133,161
	43,035	37,587	44,620	49,227	53,464	51,441
	29,547	21,450	16,550	5,139	13,179	19,889
	2,092	3,562	864	2,433	1,780	-
	36,872	30,305	46,030	32,740	30,445	34,971
	<u>1,549,262</u>	<u>1,599,064</u>	<u>1,591,176</u>	<u>1,674,254</u>	<u>1,710,158</u>	<u>2,132,916</u>
	98,800	202,202	182,753	170,392	163,738	241,772
	684,644	752,281	840,490	838,472	907,201	1,012,747
	221,757	328,448	362,453	326,701	316,428	335,598
	55,857	104,777	96,633	99,377	104,389	97,237
	-	57,521	60,400	60,314	57,076	323,199
	62,742	78,451	81,008	62,917	70,720	79,602
	36,240	40,036	42,473	40,746	39,273	39,570
	11,675	17,787	21,440	26,581	28,997	42,203
	100,772	-	-	-	-	-
	209,068	47,005	24,637	35,213	39,396	61,606
	137,767	-	-	-	-	-
	114,425	110,060	120,754	115,319	139,607	220,510
	93,928	87,830	87,438	100,006	94,188	113,556
	3,713	5,252	4,098	8,131	3,316	6,302
	-	-	-	-	-	-
	<u>1,831,388</u>	<u>1,831,650</u>	<u>1,924,577</u>	<u>1,884,169</u>	<u>1,964,329</u>	<u>2,573,902</u>
	(282,126)	(232,586)	(333,401)	(209,915)	(254,171)	(440,986)
	322,008	278,045	306,231	225,522	278,743	337,127
	(192,427)	(178,228)	(219,648)	(184,004)	(223,863)	(272,726)
	366,709	173,494	209,931	150,594	274,721	433,514
	-	437,243	285,801	572,020	173,062	169,230
	(209,594)	(433,192)	(283,410)	(597,410)	(183,566)	(181,652)
	-	-	-	-	-	6,439
	-	-	-	36,237	10,546	16,912
	-	(119)	-	-	-	-
	-	-	54,379	-	-	-
	<u>286,696</u>	<u>277,243</u>	<u>353,284</u>	<u>202,959</u>	<u>329,643</u>	<u>508,844</u>
\$	<u>4,570</u>	<u>44,657</u>	<u>19,883</u>	<u>(6,956)</u>	<u>75,472</u>	<u>67,858</u>
	13.1%	11.4%	11.2%	12.1%	12.3%	13.5%

CITY OF HOUSTON, TEXAS
TAX REVENUE BY SOURCE - GOVERNMENTAL FUNDS
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Industrial Assessments	Mixed Beverage Tax	Bingo Tax	Total Tax Collections
2002	\$ 626,850	\$ 341,952	\$ 175,360	\$ 15,642	\$ 7,514	\$ 251	\$ 1,167,569
2003	\$ 639,888	\$ 322,538	\$ 160,673	\$ 15,014	\$ 7,572	\$ 246	\$ 1,145,931
2004	\$ 645,536	\$ 347,982	\$ 161,378	\$ 15,167	\$ 8,095	\$ 253	\$ 1,178,411
2005	\$ 664,831	\$ 370,583	\$ 162,263	\$ 14,635	\$ 8,343	\$ 270	\$ 1,220,925
2006	\$ 700,788	\$ 422,598	\$ 186,508	\$ 14,314	\$ 9,000	\$ 279	\$ 1,333,487

CITY OF HOUSTON
ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY
Last Five Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Personal Property	Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2002	\$ 53,776,892	\$ 43,574,102	\$ 7,089,516	\$ 2,816,865	\$ 11,767,963	\$ 95,489,412	6.550
2003	\$ 58,211,949	\$ 43,815,475	\$ 7,640,012	\$ 2,886,083	\$ 13,248,143	\$ 99,305,376	6.550
2004	\$ 63,305,495	\$ 43,964,367	\$ 7,987,666	\$ 2,527,261	\$ 14,627,189	\$ 103,157,600	6.550
2005	\$ 67,298,102	\$ 44,051,724	\$ 7,923,377	\$ 2,532,851	\$ 15,924,828	\$ 105,881,226	6.500
2006	\$ 71,997,166	\$ 60,214,783	\$ 8,149,890	\$ 2,023,823	\$ 31,298,860	\$ 111,086,802	6.475

The tax rates are based on a 100% assessment ratio. Tax rates are stated per \$1,000 assessed value.

CITY OF HOUSTON, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years
(unaudited)

Purpose	2006	2005	2004	2003	2002
City					
City of Houston ^(A)	6.475	6.5	6.55	6.55	6.55
County					
Fort Bend County	5.1674	5.2374	5.2374	5.3874	5.641
Harris County ^(B)	4.3308	7.634	5.506	6.597	6.692
Montgomery County	4.963	4.963	4.71	4.71	4.71
School District					
Aldine I.S.D.	17.09	16.89	16.68	16.18	12.5
Alief I.S.D.	17.2	16.9	16.75	16.75	16.75
Clear Creek I.S.D.	16.3	17.45	17.3	17.4	17.25
Conroe I.S.D.	17.6	17.325	17.325	17.225	2.025
Crosby I.S.D.	18.7	18.8	18.845	16.7	16.7
Cypress-Fairbanks I.S.D.	18	17.9	17.9	17.9	17.09
Deer Park I.S.D.	18.055	18.055	18.071	18.035	16.898
Fort Bend I. S. D.	17.075	17.075	No data	No data	No data
Galena Park I.S.D.	18.15	17.95	17.65	17.65	16.8352
Goose Creek I.S.D.	17.275	16.8371	1.8371	No data	No data
Houston I.S.D.	15.99	15.99	15.8	15.8	15.8
Huffman I.S.D.	17.55	18.5	16.7	16.8	16.8
Humble I.S.D.	17.7	17.4	17.4	17.4	17.4
Katy I.S.D.	20.00	20.00	19.7	19.4	19.2
Klein I.S.D.	17.00	17.00	17.2	17.2	17.2
New Caney I.S.D.	17.9	17.7	17.7	17.1	16.554
North Forest I.S.D.	17.125	17.444	17.444	17.444	17.444
Pasadena I.S.D.	17.75	17.75	17.75	16.875	16.6
Sheldon I.S.D.	17.5	17.46	17.03	16.33	16.33
Spring I.S.D.	17.1	18.7	17.6	17.6	17.0
Spring Branch I.S.D.	18.1	18.1	18.1	18.1	18.1
Municipal Utility District					
Harris County MUD # 355	3.80	4.00	3.4	No data	No data
Harris County MUD # 359	3.25	3.70	No data	No data	No data
Harris County MUD # 366	4.40	5.00	5.00	No data	No data
Harris County MUD # 390	7.00	7.00	No data	No data	No data
Northwood M.U.D. #1	12.5	12.5	12.5	12.5	12.5
Other Jurisdictions					
Clear Lake City Water Authority	2.9	2.9	2.9	3.1	3.3
Fort Bend Parkway Road	0.4153	1.1448	1.1448	No data	No data
Harris County Dept. of Education	0.0629	0.0629	No data	No data	No data
Houston Community College System	0.81333	0.81333	0.81333	0.81333	No data
Lee College District	2.06770	2.08130	No data	No data	No data
N. Harris Montgomery Community College	1.207	1.145	1.145	1.055	1.1
Port of Houston	0.1474	0.1673	0.2	0.1989	No data
San Jacinto Jr. College District	0.13913	0.2943	1.3913	1.3071	1.307

(A) The tax rates are based on a 100% assessment ratio. Tax rates are stated per \$1000 assessed value.

(B) Harris County includes the Harris County Flood Control District and Harris County Toll Road .

2001	2000	1999	1998	1997
6.55	6.65	6.65	6.65	6.65
6.041	6.241	6.241	6.291	6.47
6.4173	6.4173	6.4173	6.4173	6.4735
4.747	4.747	4.747	4.897	4.897
15.19	15.19	15.15	15.1	14.85
16.4	16.4	16.995	16.995	16.995
17.0084	17.0084	16.4152	16.4152	15.15
17.025	17.025	17.505	17.505	16.355
16.8	16.8	16.8	16.8	16.8
17.09	17.09	17.7	17.7	17.5
16.9	16.7	15.8	15.8	15.3
No data	No data	No data	No data	No data
16.8352	16.8352	16.768	16.768	16.168
No data	No data	No data	No data	No data
15.19	14.59	14.59	13.84	13.84
17.4	17.4	18.8	18.8	19.2
16.8	16.8	16.6	18.1	17.9
18.675	16.95	18.3	18.3	17.5
16.7	16.7	17.8	17.8	17.8
17.696	16.9	18.3	18.3	16.874
17.44	16.423	17.923	17.923	16.8
16.1	15.2	15.5	15.535	14.8
14.57	15.38	15.2	15.2	15.2
16.9	17.4	18.6	18.6	17.9
17.9	17.9	18.2	18.2	17.8
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
12.5	12.5	12.5	12.5	99.6
3.3	3.3	3.3	3.2	3.3
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
No data	No data	No data	No data	No data
1.1	1.174	1.198	1.198	1.228
No data	No data	No data	No data	No data
1.26	1.26	1.1	1.1	1.1

CITY OF HOUSTON, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2006
Current Year and Nine Years Ago
(amounts expressed in thousands)
(unaudited)

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Centerpoint Energy, Inc.	\$ 1,594,058	1	1.51%			
Crescent Real Estate	1,010,197	2	0.95%			
Hines Interests Ltd. Partnership	810,157	3	0.77%	1,020,000	3	1.55%
Lyondell	666,513	4	0.63%			
SBC	658,515	5	0.62%			
Trizec Hahn	494,994	6	0.47%			
Anhesuer Busch, Inc.	466,775	7	0.44%	272,000	6	0.41%
Exxon Mobil Corp.	464,514	8	0.44%			
HG Galleria LP	380,439	9	0.36%			
Teachers Insurance	357,089	10	0.34%			
Houston Lighting & Power				1,360,000	1	2.06%
Southwestern Bell				1,050,000	2	1.59%
Exxon Corporation				427,000	4	0.65%
Lyondell -Citgo Refining Co.				314,000	5	0.48%
Allen Center				234,000	7	0.35%
Continental Airlines, Inc.				200,000	8	0.30%
Chevron Chemical Co.				199,000	9	0.30%
JMB Houston Center Partnership				194,000	10	0.29%
Total :	<u>\$ 6,903,251</u>		<u>6.53%</u>	<u>\$ 5,270,000</u>		<u>7.98%</u>

CITY OF HOUSTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 437,589	\$ 425,536	97.25%	\$ 8,764	\$ 434,300	99.25%
1998	\$ 461,904	\$ 448,279	97.05%	\$ 10,317	\$ 458,596	99.28%
1999	\$ 493,913	\$ 479,856	97.15%	\$ 10,406	\$ 490,262	99.26%
2000	\$ 536,599	\$ 522,302	97.34%	\$ 10,272	\$ 532,574	99.25%
2001	\$ 574,325	\$ 558,193	97.19%	\$ 11,184	\$ 569,377	99.14%
2002	\$ 625,283	\$ 608,337	97.29%	\$ 10,667	\$ 619,004	99.00%
2003	\$ 650,450	\$ 632,588	97.25%	\$ 10,154	\$ 642,742	98.81%
2004	\$ 675,682	\$ 657,988	97.38%	\$ 8,785	\$ 666,773	98.68%
2005	\$ 688,228	\$ 669,659	97.30%	\$ 5,740	\$ 675,399	98.14%
2006	\$ 719,287	\$ 688,486	95.72%	\$ -	\$ 688,486	95.72%

These figures represent collections as of June 30 of each year. Tax delinquency date ordinarily is February 1 of the year following the Tax Year, but such date will be postponed for taxpayers whose tax bills are mailed by the City after January 10 of the year following the Tax Year.

CITY OF HOUSTON
TAX SUPPORTED DEBT SERVICE FUNDS
(amounts expressed in thousands)
(unaudited)

Tax Bond Debt Service Fund for Fiscal Year 2007

	Amount (in thousands)
Budgeted Resources	
Beginning Fund Balance Estimate as of July 1, 2006	\$ 112,088
Interest Earnings on Debt Reserves and Bond Funds	3,826
Transfers in from:	
General Fund	204,002
Water and Sewer Operating Fund	24,604
Third Party Reimbursements	30,000
Other Sources	12,959
Total Budgeted Resources	\$ 387,479
 Budgeted Expenditures	
Debt Service Requirements	
Tax Bonds	\$ 247,896
Commercial Paper Paid from Third Party Reimbursements	\$ 30,000
Assumed Bonds	1,377
Miscellaneous	300
Total Budgeted Expenditures	279,573
 Budgeted Ending Fund Balance as of June 30, 2007	107,906
Total Budgeted Expenditures and Reserves	\$ 387,479

(a) This fund includes the debt service for the City's Tax Bonds, Assumed Bonds, Pension Obligations, and Commercial Paper Notes.

Tax Certificates Debt Service Fund for Fiscal Year 2007

	Amount (in thousands)
Budgeted Resources	
Beginning Fund Balance Estimate as of July 1, 2006	\$ 920
Interest Earnings on Debt Reserves and Bond Funds	-
Transfers from General Fund	5,000
Other Sources	-
Total Budgeted Resources	\$ 5,920
 Budgeted Expenditures	
Debt Service Requirements	\$ 4,626
Total Budgeted Expenditures	4,626
 Budgeted Ending Fund Balance as of June 30, 2007	1,294
Total Budgeted Expenditures and Reserves	\$ 5,920

CITY OF HOUSTON
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Four Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Governmental Activities			Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita (a)
	General Obligation Bonds	Capital Leases	Other Borrowings	Combined Utility System Revenue Bonds	Houston Airport System Revenue Bonds	Convention & Entertainment Revenue Bonds	Long-Term Contracts			
2003	\$ 2,025,330	\$ 53,372	\$ 25,810	\$ 4,108,847	\$ 2,167,722	\$ 665,846	\$ 261,791	\$ 9,308,718	13.52%	\$ 4,699
2004	\$ 2,071,560	\$ 52,344	\$ 24,865	\$ 4,038,164	\$ 2,170,394	\$ 666,679	\$ 243,877	\$ 9,267,883	13.34%	\$ 4,612
2005	\$ 2,415,988	\$ 51,253	\$ 23,395	\$ 4,451,525	\$ 2,279,443	\$ 671,094	\$ 266,799	\$ 10,159,497	12.90%	\$ 5,038
2006	\$ 2,694,362	\$ -	\$ 21,880	\$ 4,695,148	\$ 2,260,462	\$ 665,402	\$ 248,368	\$ 10,585,622	Not Avail.	\$ 5,099

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(a) See the Schedule of Demographic and Economic Statistics on page 217 for personal income and population data.

CITY OF HOUSTON, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Five Fiscal Years
(amounts expressed in thousands, except per capita amount)
(unaudited)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value (1) of Property	Per Capita (2)
2002	\$ 1,934,505	\$ 102,176	\$ 1,832,329	1.92%	\$ 938
2003	\$ 2,025,330	\$ 99,534	\$ 1,925,796	1.94%	\$ 972
2004	\$ 2,071,560	\$ 91,774	\$ 1,979,786	1.92%	\$ 985
2005	\$ 2,415,988	\$ 106,864	\$ 2,309,124	2.18%	\$ 1,145
2006	\$ 2,694,362	\$ 110,824	\$ 2,583,538	2.33%	\$ 1,244

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

1. See the schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 203 for property value data.
2. Population data can be found in the Schedule of Demographic and Economic Statistics on page 217.

CITY OF HOUSTON, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006
(amounts expressed in thousands)
(unaudited)

	<u>Net Direct Debt</u>		<u>% of Debt Applicable to Houston</u>	<u>City of Houston Share of Debt</u>
	<u>Amount</u>	<u>As of</u>		
City				
City of Houston - direct	\$ 2,583,538	06/30/06	100.00%	\$ 2,583,538
County				
Fort Bend County	91,263	06/30/06	4.62%	4,216
Harris County (including Toll Road Bonds)	2,067,053	06/30/06	56.87%	1,175,533
Harris County Flood Control	336,672	06/30/06	56.87%	191,465
Montgomery County	137,569	06/30/06	0.06%	83
School District				
Aldine I.S.D.	204,603	06/30/06	52.67%	107,764
Alief I.S.D.	259,413	08/31/05	79.27%	205,637
Clear Creek I.S.D.	525,675	06/30/06	27.31%	143,562
Conroe I.S.D.	483,806	08/31/05	0.08%	387
Crosby I.S.D.	75,330	06/30/06	0.37%	279
Cypress-Fairbanks I.S.D.	1,110,528	06/30/06	15.40%	171,021
Deer Park I.S.D.	98,322	08/31/05	0.14%	138
Fort Bend I.S.D.	682,784	04/30/06	1.00%	6,828
Galena Park I.S.D.	196,163	08/31/05	15.65%	30,700
Goose Creek I.S.D.	287,927	06/30/06	0.92%	2,649
Houston I.S.D.	1,769,359	06/30/05	94.33%	1,669,036
Huffman I.S.D.	38,772	05/31/06	30.99%	12,015
Humble I.S.D.	418,733	06/30/06	3.50%	14,656
Katy I.S.D.	742,383	08/31/05	24.60%	182,626
Klein I.S.D.	163,205	06/30/06	2.49%	4,064
New Caney I.S.D.	122,530	06/30/06	0.37%	453
North Forest I.S.D.	71,561	08/31/05	79.24%	56,705
Pasadena I.S.D.	238,325	08/31/05	41.21%	98,214
Sheldon I.S.D.	70,809	06/30/06	0.12%	85
Spring I.S.D.	445,824	06/30/06	2.61%	11,636
Spring Branch I.S.D.	366,504	06/30/06	82.18%	301,193
Municipal Utility District				
Harris County MUD 355	7,992	09/14/06	100.00%	7,992
Harris County MUD 359	9,973	06/30/06	100.00%	9,973
Harris County MUD 366	1,389	06/30/06	100.00%	1,389
Harris County MUD 390	3,558	06/30/06	100.00%	3,558
Northwood Municipal Utility District #1	2,125	06/30/06	100.00%	2,125
Other Jurisdictions				
Clear Lake City Water Authority	64,738	06/30/06	47.39%	30,679
Fort Bend Parkway Road	583	06/30/06	12.58%	73
Harris County Dept. of Education	-	09/27/06	56.87%	-
Houston Community College	142,070	06/30/06	97.70%	138,802
Lee College District	18,405	06/30/06	0.92%	169
N. Harris-Montgomery Community College Dis.	195,901	06/30/06	19.49%	38,181
Port of Houston Authority	314,314	06/30/06	56.87%	178,750
San Jacinto Jr. College	68,724	06/30/06	12.97%	8,914
Total overlapping debt	11,834,885			4,811,550
Total direct and overlapping debt	<u>\$ 14,418,423</u>			<u>\$ 7,395,088</u>

Note:

The net direct debt amounts above, except for that which relates to the City of Houston, were provided by the individual government entities. The percentage of debt applicable to Houston was provided by the Municipal Advisory Council of Texas. Net Direct Debt is equal to the outstanding principal amount less sinking fund balances.

City of Houston, Texas
AD VALOREM TAX LEVIES AND COLLECTIONS
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Tax Rate ^(a)			Net Current Year Tax Levy ^(b) (in thousands)	Current Collections Prior to End of Fiscal Year ^{(c) (d)} (in thousands)	Prior Years' Delinquent Collections ^(d) (in thousands)	Total Collections (in thousands)	Total Collections Percentage of Net Levy
	General Purposes	Debt Service	Total					
2002	0.47601	0.17899	0.65500	625,283	608,337	18,950	627,287	100.3
2003	0.47459	0.18041	0.65500	650,450	632,588	23,285	655,873	100.8
2004	0.49452	0.16048	0.65500	675,682	657,988	25,599	683,587	101.2
2005	0.46573	0.18427	0.65000	688,228	669,659	27,772	697,431	101.3
2006	0.46359	0.18391	0.64750 ^(e)	719,287	688,486	31,718	720,204	100.1

- ^(a) The Texas Constitution limits the maximum ad valorem tax rate to \$2.50 (per \$100 of assessed valuation) for home rule cities such as the City.
- ^(b) The figures represent net adjusted levies including the late certification and correction rolls from the Appraisal District for the current Tax Years through June 30 of each Fiscal Year.
- ^(c) These amounts do not include revenues from various types of Industrial District Contracts (as defined herein) entered into by the City with industrial property owners outside of the City's corporate limits. Such Industrial District Contracts have a term of fifteen years and allow property owners to make payments to the City in lieu of paying ad valorem taxes.
- ^(d) Includes all ad valorem tax receipts received by the City, although such receipts include tax increment revenues ("Tax Increments") deposited into separate funds for its 22 tax increment reinvestment zones ("Zones"). In the Fiscal Year 2006, the City transferred approximately \$29.9 million of Tax Increments into these funds representing an increase over the previous year of approximately \$4.3 million. Notwithstanding, the City expects such Zones to budget certain amounts of Tax Increments to be paid to the City for police, fire and other related public safety general fund expenditures attributable to development in such Zones. By virtue of contracts among the City, the tax increment reinvestment zones and the local government corporations that manage the Zones, the Tax Increments are transferred to the respective local government corporation and are available for use on authorized projects in the Zone and to be pledged to obligations issued by the local government corporation on behalf of the Zone. Bonds and other obligations issued by the local government corporation are not debt of the City.
- ^(e) The City Council adopted a tax rate for Tax Year 2006 (Fiscal Year 2007) of \$0.6450 (per \$100 assessed valuation). The City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's outstanding bond indebtedness, with the remaining revenues to be apportioned among the City's respective departments. In future Fiscal Years, the amount of the tax levy allocated to debt service may need to be increased, reducing the amount allocable for the delivery of essential governmental services, if there is no corresponding increase in the overall tax levy.

Tax Year	Fiscal Year	Tax-Supported Debt at December 31 (in thousands)	Tax Roll ^(a) (in thousands)	Tax-Supported Debt as a Percentage of Tax Roll	Tax-Supported Per Capita Debt ^(b)	Debt Service Requirement Payable from Taxes ^{(c)(d)} (in thousands)	Tax Levy for Debt Service (in thousands) ^e
2002	2003	2,025,330	99,305,376	2.04%	1,022	219,673	178,000
2003	2004	2,073,359	103,157,602	2.01%	1,024	219,788	165,000
2004	2005	2,432,724	105,881,225	2.30%	1,196	233,354	188,000
2005	2006	2,644,366	111,225,839	2.38%	1,274	248,105	195,000
2006	2007	2,831,207	122,030,869	2.32%	1,364	260,469	209,000

- ^(a) With the exception of Tax Year 2006, the tax roll represents the total appraised value of property, after subtracting all exemptions, and reflect all adjustments made by the Appraisal District as of June 30 of each Fiscal Year. As of October 20, 2006, the total assessed value for Tax Year 2006 (including exempt property values) was approximately \$155.3 billion, which is the appraised value used to determine the statutory limitation of approximately \$15.5 billion relating to total bond indebtedness.
- ^(b) Per capita figures are based on population estimates according to the Texas State Data Center for Tax Years 2002-2005.
- ^(c) These amounts have not been reduced by the combined ending fund balances in the General Debt Service Fund, which were as follows for the Fiscal Years indicated: Fiscal Year 2002 - \$102,176,000, Fiscal Year 2003 - \$99,534,000, Fiscal Year 2004 - \$91,774,000, Fiscal Year 2005 - \$106,864,000, Fiscal Year 2006 - \$110,824,000.
- ^(d) These amounts include principal and interest payments for Tax Bonds, Tax Notes, Pension Obligations, Tax Certificates and Assumed Bonds, and interest only for Commercial Paper Notes at an assumed rate appropriate for each Fiscal Year. As of December 4, 2006 it no longer includes any principal and interest payments for Assumed Bonds.
- ^(e) Sources of funds for the general obligation debt service requirement include the tax levy and transfers from Enterprise and Special Revenue Funds.

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

	1997	1998	1999
Legal debt limitation, 10% of assessed value(2)	\$7,310,541	\$7,723,949	\$8,249,959
Total net debt applicable to margin	<u>1,513,875</u>	<u>1,923,676</u>	<u>2,516,268</u>
Legal debt margin	<u>\$5,796,666</u>	<u>\$5,800,273</u>	<u>\$5,733,691</u>
Total net debt applicable to the limit as a percentage of debt limit	21%	25%	31%

(1) Assessed Value for the 2005 tax year (fiscal year 2006) is based on the appraised value of property prior to any deductions for exemptions.

The Assessed Value is derived from the certified valuations provided by the Harris County Appraisal District as of August 31, 2006.

(2) See Vernon's Annotated Civil Statutes, Article 835p, Section 1 and 2

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed Value (1)	\$142,385,665
Debt Limit (10% of assessed value)	14,238,567
Debt applicable to limit:	
Public Improvement Bonds	1,658,020
Pension Obligation Bonds	342,331
Aviation	2,298,821
Commercial Paper - General Obligation	544,575
Annexed District Bonds	10,835
Tax and Revenue Certificates of Obligation	81,401
Total net debt applicable to limit	<u>4,935,983</u>
Legal debt margin	<u><u>\$9,302,584</u></u>

2000	2001	2002	2003	2004	2005	2006
\$8,945,848	\$9,814,263	\$10,725,911	\$11,255,352	\$11,778,479	\$12,180,606	\$14,238,567
<u>2,622,990</u>	<u>3,286,061</u>	<u>3,325,921</u>	<u>4,093,518</u>	<u>4,151,145</u>	<u>4,686,543</u>	<u>4,935,983</u>
<u>\$6,322,858</u>	<u>\$6,528,202</u>	<u>\$7,399,990</u>	<u>\$7,161,834</u>	<u>\$7,627,334</u>	<u>\$7,494,063</u>	<u>\$9,302,584</u>
29%	33%	31%	36%	35%	38%	35%

CITY OF HOUSTON, TEXAS
PLEDGED - REVENUE COVERAGE
Last Five Fiscal Years
(amounts expressed in thousands)
(unaudited)

Airport System Bonds ⁽¹⁾

Fiscal Year	Operating & Non-Operating Revenues ⁽²⁾	Less: Operating Expenses	Net Pledged Revenue	Debt Service		Less Grants Available for Debt Service	Coverage
				Principal	Interest ⁽³⁾		
2002	244,791	142,950	101,841	4,380	47,231	37,153	7.04
2003	251,921	154,541	97,380	17,985	46,003	30,282	2.89
2004	278,933	161,645	117,288	18,865	56,932	32,823	2.73
2005	368,314	191,093	177,221	28,182	84,066	25,506	2.04
2006	411,545	202,496	209,049	31,737	108,776	46,621	2.23

1. Including Sr. Lien Commercial Paper, Subordinate Lien Bonds, and Inferior Lien Obligations.
2. Income and revenues derived from the operation of the Airport System with limited exclusions.
3. Debt service is net of amounts paid by grant funds and capitalized interest.

Combined Utility System Bonds ⁽⁴⁾

Fiscal Year	Operating & Non-Operating Revenues ⁽⁵⁾	Less: Total Expenses	Net Pledged Revenue	Debt Service		Coverage
				Principal	Interest	
2002	590,589	278,174	312,415	56,936	162,446	1.42
2003	569,902	281,160	288,742	55,370	173,363	1.26
2004	624,297	304,882	319,415	54,528	169,364	1.43
2005	668,391	309,343	359,048	14,031	175,789	1.89
2006	721,243	349,135	372,108	31,570	196,461	1.63

4. Including Water and Sewer System Bonds, Combined Utility System Bonds, and Commercial Paper.
5. Income and revenues derived from the operation of the Combined Utility System with limited exclusions.

Convention and Entertainment Center Bonds ⁽⁶⁾

Fiscal Year	Pledged Hotel Occupancy Tax & Other Revenue ⁽⁷⁾	Debt Service		Coverage
		Principal	Interest	
2002	42,906	-	24,151	1.78
2003	44,896	5,955	19,517	1.76
2004	48,684	6,265	20,833	1.80
2005	45,459	6,590	22,715	1.55
2006	59,019	13,680	23,326	1.59

6. Including Revenue Bonds and Commercial Paper.
7. Includes 5.65/7 of collected hotel occupancy tax, certain parking revenues, and certain tax rebates.

CITY OF HOUSTON, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Five Fiscal Years
(unaudited)

Fiscal Year	Population	(1)	Personal Income (amount in thousands)	(2)	Per Capita Personal Income	(2)	Median Age	(3)	Education Level in Years of Formal Schooling	(3)	School Enrollment	(3)	Average Unemployment Rate (percentage)	(4)
2002	1,979,052	\$	70,234,576	\$	35,489		30.7		12.7		423,103		4.7	(4)
2003	2,002,144	\$	68,875,756	\$	34,401		31.5		12.8		404,349		6.0	(4)
2004	2,009,669	\$	69,490,335	\$	34,578		31.4		12.8		410,566		6.9	(4)
2005	2,016,582	\$	78,751,560	\$	39,129		31.9		12.7		392,846		6.3	(4)
2006	2,076,189		Not available		Not available		32.3		12.6		409,937		5.5	(5)

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal year 2002 is as of July 1, 2001.)

(2) Source: Bureau of Economic Analysis.
(Data is for the Metropolitan Statistical Area--Houston, Baytown, Sugarland, with 2002 data shown for fiscal 2001, using the census bureau population data.)

(3) Source: American Community Survey, U. S. Census Bureau. (Fiscal year 2002 data is for calendar year 2001.)

(4) Source: University of Houston, Center for Public Policy, December 2005. (Data for fiscal year 2002 is calendar year 2001.)

(5) Source: Texas Workforce Commission

**CITY OF HOUSTON, TEXAS
PRINCIPAL EMPLOYERS
June 30, 2006
Current Year and Four Years Ago
(unaudited)**

Employer	2006			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Memorial Hermann Healthcare System	17,500	1	1.81%	14,000	2	1.49%
Continental Airlines, Inc.	16,000	2	1.65%	16,000	1	1.71%
Univ of Tx M. D. Anderson Cancer Center	16,000	3	1.65%	10,733	7	1.15%
Shell Oil Company	13,000	4	1.34%	13,000	3	1.39%
Kroger Company	12,000	5	1.24%	13,000	4	1.39%
Haliburton	10,201	6	1.05%	12,000	5	1.28%
ARAMARK Corp.	10,000	7	1.04%	10,000	8	1.07%
The Methodist Hospital System	9,991	8	1.04%	9,000	10	0.96%
Baylor College of Medicine	9,143	9	0.95%			
HP	9,000	10	0.93%			
Compaq Computer Corporation				11,000	6	1.17%
Reliant Energy				9,500	9	1.01%
Total :	<u>122,835</u>		<u>12.70%</u>	<u>118,233</u>		<u>12.62%</u>

Employers excludes school districts, city, county, state and federal government.
Source: Greater Houston Partnership

Total City Employment is employed Houston residents only	2006	967,476
Source: Texas Workforce Commission	2002	937,053

CITY OF HOUSTON, TEXAS

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**CITY OF HOUSTON, TEXAS
EMPLOYMENT STATISTICS
June 30, 2006
(unaudited)**

Employment

The following table indicates the Houston PMSA estimated annual average labor force for the years 1996 through 2005 according to the Texas Employment Commission:

**Houston PMSA Labor Force Estimates
(Employees in thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Civilian Labor Force ^(A)	2,013	2,054	2,174
Employed	1,908	1,951	2,075
Unemployed	105	103	98
Percent unemployed	5.20%	5.00%	4.50%
Nonfarm Payroll Employment ^(B)	1,814	1,892	1,805
Manufacturing	199	209	215
Mining	65	68	65
Contract construction	126	127	143
Transp/Pub Utils/Communications	126	133	144
Trade	422	435	462
Finance/Insurance/Real Estate	96	100	110
Services & Miscellaneous	534	570	626
Government	246	249	256

(A) Includes resident wage and salary workers, self-employed, unpaid family workers and domestics in private households, agricultural workers, and workers involved in labor-management disputes.

(B) Includes the non-agricultural wage and salary jobs estimated to exist in Houston PMSA without reference to place of residence of workers.

1999	2000	2001	2002	2003	2004	2005
2,185	2,163	2,201	2,364	2,320	2,574	2,629
2,089	2,073	2,107	2,202	2,161	2,412	2,484
97	89	94	161	159	162	145
4.40%	4.13%	4.29%	6.81%	6.85%	6.29%	5.52%
1,864	2,082	2,118	2,112	2,095	2,288	2,350
206	210	215	192	189	208	213
63	64	69	59	63	67	71
154	154	159	167	158	164	169
151	152	154	143	143	143	146
476	474	478	435	415	472	483
117	114	116	123	168	136	139
633	646	659	699	680	866	999
272	269	269	291	292	336	340

CITY OF HOUSTON, TEXAS
Last Five Years
CITY OF HOUSTON EMPLOYMENT INFORMATION
(unaudited)

Full-time Equivalent Employees as of June 30

<u>Fund/Department</u>	2002	2003	2004	2005	2006
GENERAL FUND					
Public Safety					
Fire/Civilian	318.4	344.8	316.2	320.3	295.5
Fire/Classified	3,729.7	3,717.0	3,647.7	3,716.0	3,919.8
Fire/Cadets	162.5	268.2	392.8	181.5	38.5
Municipal Courts - Administration	388.5	380.1	354.7	347.1	339.8
Municipal Courts - Justice	45.2	46.8	45.3	41.6	45.0
Police/Civilian	1,780.3	1,509.9	1,425.5	1,115.6	1,164.8
Police/Classified	5,588.0	5,432.5	5,362.3	5,118.3	4,892.6
Police/Cadets	87.3	74.0	36.2	26.7	86.2
Total Public Safety	<u>12,099.9</u>	<u>11,773.3</u>	<u>11,580.7</u>	<u>10,867.1</u>	<u>10,782.2</u>
Development & Maintenance Services					
Building Services	313.1	311.7	289.4	181.2	206.7
Planning & Development	233.7	217.6	105.0	104.3	101.5
Public Works & Engineering	1,032.6	860.4	567.5	841.3	521.0
Solid Waste Management	617.1	581.2	545.9	576.9	593.0
Total Development & Maintenance	<u>2,196.5</u>	<u>1,970.9</u>	<u>1,507.8</u>	<u>1,703.7</u>	<u>1,422.2</u>
Human & Cultural Services					
Convention & Entertainment Facilities	-	-	-	-	56.5
Health & Human Services	898.0	834.7	776.6	767.1	720.4
Library	604.8	520.3	531.2	443.0	552.1
Parks & Recreation	1,094.8	993.0	768.2	741.0	849.0
Total Human & Cultural Services	<u>2,597.6</u>	<u>2,348.0</u>	<u>2,076.0</u>	<u>1,951.1</u>	<u>2,178.0</u>
Administrative Services					
Affirmative Action	30.5	29.6	24.7	27.2	26.2
City Council	78.9	74.0	68.2	61.5	77.0
City Secretary	15.8	13.7	13.8	12.1	12.2
Controller's Office	84.3	80.0	76.3	74.9	73.9
Finance & Administration	332.6	320.6	304.4	313.5	315.4
Human Resources	52.9	45.9	43.0	38.6	40.1
Information Technology	133.7	130.6	147.4	143.5	125.0
Legal	163.6	158.7	153.4	146.4	144.3
Mayor's Office	25.0	24.2	21.9	20.2	21.4
Total Administrative Services	<u>917.3</u>	<u>877.3</u>	<u>853.1</u>	<u>837.9</u>	<u>835.5</u>
Total General Fund	<u>17,811.3</u>	<u>16,969.5</u>	<u>16,017.6</u>	<u>15,359.8</u>	<u>15,217.9</u>

Full-time Equivalent Employees as of June 30

	2002	2003	2004	2005	2006
Fund/Department					
ENTERPRISE FUNDS					
Aviation	1,103.0	1,088.0	1,236.3	1,516.8	1,578.1
Convention & Entertainment Facilities	82.2	84.2	88.9	104.7	110.8
PW&E - Public Utilities - Water & Sewer	2,246.6	2,283.9	2,102.6	2,220.3	2,171.0
Total Enterprise Funds	3,431.8	3,456.1	3,427.8	3,841.8	3,859.9
SPECIAL REVENUE FUNDS					
Houston Emergency Center	72.0	183.8	190.4	219.3	239.4
Cable Television	8.2	10.9	9.1	10.5	11.0
Parks Special Revenue	183.7	98.6	105.8	98.0	99.1
Police - Asset Forfeiture	61.0	63.7	20.0	15.9	29.3
Police - Auto Dealers/Civilian	6.1	6.1	6.8	8.2	7.3
Police - Auto Dealers/Classified	14.2	12.0	18.5	18.0	23.3
Police Special Services/Civilian	34.9	51.4	218.0	117.7	68.1
Police Special Services/Classified	0.0	0.0	1.0	0.0	1.5
PW&E - Building Inspection	270.6	262.8	389.5	308.5	416.0
PW&E - Sign Administration	30.8	31.5	26.9	27.5	31.4
PW&E - Stormwater Utility	299.7	406.0	393.5	403.5	419.1
PW&E - Houston TransStar	6.0	6.0	6.0	5.9	5.4
PW&E - TxDOT Signal Maintenance	6.8	6.8	7.0	0.5	0.0
Municipal Courts Security Fund	-	-	-	19.4	21.5
Municipal Courts Technology Fee Fund	-	-	-	-	1.6
Total Special Revenue Funds	994.0	1,139.6	1,392.5	1,252.9	1,374.0
Total General, Enterprise and Special Funds	22,237.1	21,565.2	20,837.9	20,454.5	20,451.8
INTERNAL SERVICE/REVOLVING FUND					
Human Resources - Health Benefits	36.6	37.4	36.0	37.1	38.3
Building Services - Central Svc Revolving	-	-	-	1.5	4.0
Human Resources - Central Svc Revolving	5.2	6.0	5.0	4.8	4.6
F&A - Central Service Revolving	12.1	13.5	6.0	5.5	6.0
Information Technology - Central Svc Revolving	-	-	2.0	1.6	2.0
Fire Reconstruction	18.0	20.2	13.3	0.0	0.0
In House Reconstruction	0.0	0.0	0.0	29.1	28.1
PW&E - Fleet Management	98.3	105.5	159.6	74.1	149.9
PW&E - CIP Salary Recovery	-	-	245.6	0.0	277.1
BSD - CIP Salary Recovery	-	-	-	-	40.3
F&A - Property and Casualty	5.0	4.6	4.0	4.0	4.5
Legal Property and Casualty	34.7	32.0	29.4	28.4	28.5
Human Resources - Workers Compensation	30.7	30.2	31.0	30.3	30.2
Legal - Workers Compensation	4.9	4.5	-	5.2	4.5
Total Internal Service/Revolving Fund	245.5	253.9	531.9	221.6	618.0
TOTAL FTE'S	22,482.6	21,819.1	21,369.8	20,676.1	21,069.8

Note:

Actual numbers for FY 2006 were not available. Estimates and overtime budget numbers were used.

CITY OF HOUSTON, TEXAS
OPERATING INDICATORS BY FUNCTION
June 30, 2006
(unaudited)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function					
Police					
Physical arrests	105,623	112,975	110,573	103,917	100,795
Parking violations	303,159	265,880	253,038	241,324	203,591
Traffic violations	696,998	871,457	779,068	841,494	851,573
Fire					
Number of calls dispatched	256,257	255,648	261,903	267,171	284,231
Inspections	36,171	28,336	30,491	40,540	38,937
Highways and streets					
Streets resurfaced (miles)	545	426	435	374	334
Tons of asphalt for pothole repair and skin patches	Not Available	18,788	18,879	18,272	16,104
Parks and recreation					
Athletic field permits issued	1,920	1,587	1,854	1,850	1,995
Community center admissions	2,880,133	3,060,111	3,199,874	2,859,414	3,332,920
Sanitation					
Refuse collected (tons)	860,924	904,804	876,519	835,054	825,915
Recyclables collected (tons)	32,572	37,942	28,862	20,607	15,352
Water					
New connections	6,273	5,435	6,616	7,806	5,235
Water main breaks	5,362	3,148	3,269	3,381	4,939
Average daily pumpage (millions of gallons)	374.8	359.0	356.6	363.1	399.9
Wastewater					
Average daily sewage treatment (millions of gallons)	254.7	262.4	286.8	252.0	227.0

CITY OF HOUSTON, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
June 30, 2006
(unaudited)

	2002	2003	2004	2005	2006
Function					
Public safety					
Police					
Stations	14	14	14	14	15
Patrol units	Not Available	Not Available	Not Available	730	919
Fire					
Stations	86	87	88	88	90
Highways and streets					
Streets (lane miles)	15,645	15,645	15,645	15,645	15,645
Streetlights	170,300	171,800	173,500	175,000	176,000
Traffic signals	2,310	2,325	2,340	2,355	2,400
Parks and recreation					
Parks acreage	18,364	18,429	18,620	18,620	24,493
Parks	518	521	523	523	533
Swimming pools	43	43	43	43	40
Tennis courts	3	3	3	3	3
Community centers	58	58	58	57	56
Sanitation					
Collection trucks	343	343	344	347	338
Water					
Water mains (miles)	Not Available	Not Available	Not Available	7,354	7,354
Fire hydrants	47,397	49,000	51,155	52,879	54,829
Maximum daily capacity (millions of gallons)	479.4	466.0	482.4	456.3	480.6
Sewer					
Sanitary sewers (miles)	Not Available	Not Available	Not Available	6,752	6,752
Storm sewers (miles)	3,300	3,300	3,300	3,300	3,420
Maximum daily treatment permitted (millions of gallons)	559.5	562.6	564.0	564.0	564.0

CITY OF HOUSTON, TEXAS
June 30, 2006
INCREASES/DECREASES TO NET ASSETS OF PENSION PLANS
(amounts expressed in thousands)
(unaudited)

	<u>Police</u>	<u>Fire</u>	<u>Municipal</u>	<u>Total</u>
Additions (Deductions)	\$378.0	\$388.9	\$388.6	\$1,155.5
Deductions	<u>134.1</u>	<u>101.0</u>	<u>161.1</u>	<u>396.2</u>
Net Increase (Decrease)	<u>243.9</u>	<u>287.9</u>	<u>227.5</u>	<u>759.3</u>
City's Total Contribution	<u>\$53.0</u>	<u>\$56.2</u>	<u>\$69.0</u>	<u>\$178.2</u>

The City's funding policies provide for actuarially determined periodic contributions at rates such that overtime will remain level as a percentage of payroll. The contribution rate for normal cost is determined by using the entry age normal cost method. The pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 40 years from January 1, 1993.

CITY OF HOUSTON, TEXAS
PRINCIPAL AND INTEREST PAYABLE FROM AD VALOREM TAXES
(EXCLUDING COMMERCIAL PAPER NOTES)
(unaudited)

The following schedule presents the City's debt service requirements for Fiscal Years 2007 through 2037 for the outstanding Tax Bonds, Pension Obligations, Tax Certificates and Assumed Bonds as of March 1, 2007. Debt service on commercial paper notes is not reflected in the schedule below. As of June 30, 2006, \$544.6 million of such Commercial Paper Notes was outstanding. On December 4, 2006, \$175.0 million of commercial paper notes was refunded with Tax Bonds resulting in \$369.6 million remaining outstanding.

Fiscal Year Ending June 30	Tax Bonds	Pension Obligations	Tax Certificates	Assumed Bonds	Total Debt Service
2007	\$ 212,937,039	\$ 19,285,224	\$ 4,724,368	\$ 764,640	\$ 237,711,271
2008	223,944,090	22,436,528	5,809,793		252,190,411
2009	215,715,602	23,838,901	8,662,468		248,216,971
2010	208,852,892	25,241,273	9,694,768		243,788,933
2011	193,794,161	27,190,149	13,630,130		234,614,440
2012	180,753,836	29,614,280	5,515,120		215,883,236
2013	162,119,299	32,031,736	8,829,380		202,980,415
2014	147,081,755	34,513,765	5,348,085		186,943,605
2015	146,916,555	49,649,635	5,351,805		201,917,995
2016	145,154,074	54,151,819	5,351,985		204,657,878
2017	140,560,048	55,231,476	5,354,415		201,145,939
2018	136,139,936	56,311,132	5,353,565		197,804,633
2019	101,183,175	57,390,789	5,354,115		163,928,079
2020	94,495,275	58,038,036	5,355,495		157,888,806
2021	85,997,287	56,889,096	5,352,150		148,238,533
2022	84,877,913	54,540,168	5,353,750		144,771,831
2023	84,883,888	52,206,586	4,333,500		141,423,974
2024	58,497,638	49,724,557	4,333,750		112,555,945
2025	41,515,388	47,242,528	4,335,500		93,093,416
2026	21,303,638	44,760,499	4,338,250		70,402,387
2027	3,819,888	42,278,470	4,336,500		50,434,858
2028	3,823,638	39,796,441			43,620,079
2029	3,821,887	45,654,413			49,476,300
2030	3,819,638	44,163,597			47,983,235
2031	3,821,637	55,335,433			59,157,070
2032	6,282,388	55,335,520			61,617,908
2033	6,287,350	55,334,887			61,622,237
2034	3,564,475	335,375,280			338,939,755
2035	6,282,925	49,970,280			56,253,205
2036	3,425,325	38,598,102			42,023,427
2037		23,666,897			23,666,897
Total	\$ 2,731,672,640	\$ 1,635,797,497	\$ 126,718,892	\$ 764,640	\$ 4,494,953,669

CITY OF HOUSTON, TEXAS
JUNE 30, 2006
VOTER-AUTHORIZED OBLIGATIONS
(unaudited)

The following schedule sets forth the categories of bond authorization approved by the voters in elections held in November of 1997 and November of 2001, the amount of authorization approved by City Council for issuance as Commercial Paper Notes, the amount of commercial paper issued as of year-end, and the amount of commercial paper approved but unissued.

November 1997 Election

<u>Purposes</u>	<u>Voter Authorized</u>	<u>Approved by City Council for Issuance as Commercial Paper Notes</u>	<u>Commercial Paper Issued</u>	<u>Commercial Paper Notes Approved by City Council but Unissued</u>
Streets, Bridges, Traffic Control				
Storm Sewers and Drainage	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Parks and Recreation	30,000	30,000	30,000	-
Police Department	23,450	23,450	16,495	6,955
Fire Department	29,710	29,710	29,710	-
Permanent and General Imp. (a)	91,840	91,840	86,195	5,645
Low Income Housing	20,000	20,000	20,000	-
Total	\$ 545,000	\$ 545,000	\$ 532,400	\$ 12,600

November 2001 Election

<u>Purposes</u>	<u>Voter Authorized</u>	<u>Approved by City Council for Issuance as Commercial Paper Notes</u>	<u>Commercial Paper Issued (a)</u>	<u>Commercial Paper Notes Approved by City Council but Unissued</u>
Streets, Bridges, Traffic Control				
Storm Sewers and Drainage	\$ 474,000	\$ 267,400	\$ 124,000	\$ 143,400
Parks and Recreation	80,000	51,500	29,500	22,000
Police and Fire Departments	82,000	27,500	15,500	12,000
General Public Imp. (b)	80,000	23,000	1,000	22,000
Library	40,000	5,000	-	5,000
Low Income Housing	20,000	10,600	-	10,600
Total	\$ 776,000	\$ 385,000	\$ 170,000	\$ 215,000

Combined total (1997 and 2001 Elections)	\$ 1,321,000	\$ 930,000	\$ 702,400	\$ 227,600
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(a) Includes Public Libraries, Public Health and Solid Waste Management.

(b) Includes Public Health and Solid Waste Management.

CITY OF HOUSTON, TEXAS
June 30, 2006
(unaudited)

SALES AND USE TAX AND FRANCHISE CHARGES AND FEES

<u>Fiscal Year</u>	<u>Sales and Use Tax</u> (in thousands)	<u>Charges and Fees</u> (in thousands)
2002	\$ 341,952	\$ 175,360
2003	\$ 322,538	\$ 160,673 (a)
2004	\$ 347,982	\$ 161,378
2005	\$ 370,583	\$ 162,263
2006	\$ 422,598	\$ 186,508
2007 (budgeted)	\$ 431,219	\$ 180,008

(a) The projected amount of franchise charges and fees was reduced from the previous years to recognize the effect of electric deregulation.

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Total Annual Revenues Last Ten Fiscal Years	<u>1997</u>	<u>1998</u>
Operating Revenues		
Fees charged to users, net	\$ 10,277	\$ 11,018
Total Operating Revenues	<u>10,277</u>	<u>11,018</u>
Nonoperating Revenues		
Interest	2,690	3,268
Hotel occupancy tax (including penalty & interest)	34,354	38,270
Other income	<u>567</u>	<u>1,599</u>
Total Nonoperating Revenues	<u>37,611</u>	<u>43,137</u>
Total Revenues	<u>\$ 47,888</u>	<u>\$ 54,155</u>

Total Annual Expenses Last Ten Fiscal Years	<u>1997</u>	<u>1998</u>
Operating Expenses		
Maintenance and operating	\$ 17,636	\$ 14,378
Depreciation	<u>6,274</u>	<u>6,412</u>
Total Operating Expenses	<u>23,910</u>	<u>20,790</u>
Nonoperating Expenses		
Interest on long-term debt	7,884	7,685
Promotional contracts & other expenses	<u>6,000</u>	<u>6,431</u>
Total Nonoperating Expenses	<u>13,884</u>	<u>14,116</u>
Total Expenses	<u>\$ 37,794</u>	<u>\$ 34,906</u>

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 15,576	\$ 16,835	\$ 17,469	\$ 15,521	\$ 17,010	\$ 17,145	\$ 19,175	\$ 19,599
<u>15,576</u>	<u>16,835</u>	<u>17,469</u>	<u>15,521</u>	<u>17,010</u>	<u>17,145</u>	<u>19,175</u>	<u>19,599</u>
3,174	3,642	9,846	23,766	14,311	13,109	15,926	16,729
42,459	42,550	46,123	43,452	43,169	47,223	42,266	54,765
<u>1,042</u>	<u>133</u>	<u>181</u>	<u>-</u>	<u>713</u>	<u>-</u>	<u>7,279</u>	<u>4,190</u>
<u>46,675</u>	<u>46,325</u>	<u>56,150</u>	<u>67,218</u>	<u>58,193</u>	<u>60,332</u>	<u>65,471</u>	<u>75,684</u>
<u>\$ 62,251</u>	<u>\$ 63,160</u>	<u>\$ 73,619</u>	<u>\$ 82,739</u>	<u>\$ 75,203</u>	<u>\$ 77,477</u>	<u>\$ 84,646</u>	<u>\$ 95,283</u>

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 16,421	\$ 19,886	\$ 20,331	\$ 21,721	\$ 24,830	\$ 28,791	\$ 32,797	\$ 33,437
<u>6,640</u>	<u>6,684</u>	<u>6,356</u>	<u>12,406</u>	<u>13,274</u>	<u>14,077</u>	<u>10,372</u>	<u>10,984</u>
<u>23,061</u>	<u>26,570</u>	<u>26,687</u>	<u>34,127</u>	<u>38,104</u>	<u>42,868</u>	<u>43,169</u>	<u>44,421</u>
7,469	7,194	12,655	28,410	19,347	25,413	29,468	30,970
<u>9,565</u>	<u>10,974</u>	<u>20,698</u>	<u>24,193</u>	<u>19,305</u>	<u>23,307</u>	<u>61,694</u>	<u>23,880</u>
<u>17,034</u>	<u>18,168</u>	<u>33,353</u>	<u>52,603</u>	<u>38,652</u>	<u>48,720</u>	<u>91,162</u>	<u>54,850</u>
<u>\$ 40,095</u>	<u>\$ 44,738</u>	<u>\$ 60,040</u>	<u>\$ 86,730</u>	<u>\$ 76,756</u>	<u>\$ 91,588</u>	<u>\$ 134,331</u>	<u>\$ 99,271</u>

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
For Fiscal Year 2006
(unaudited)

HISTORICAL PLEDGED REVENUES
(amounts expressed in thousands)

Fiscal Year	Pledged HOT (a)	% Change	Pledged Parking Revenues (b)	% Change	Tax Rebates	% Change	Total (c)
1997	27,728	14.1%	3,260	-0.9%	--	--	30,988
1998	30,889	11.4%	4,037	23.8%	--	--	34,926
1999	34,270	10.9%	6,847	69.6%	--	--	41,117
2000	34,344	0.2%	8,152	19.1%	--	--	42,496
2001	37,228	8.4%	9,402	15.3%	--	--	46,630
2002	35,072	-5.8%	7,834	-16.7%	--	--	42,906
2003	34,844	-0.7%	10,052	28.3%	--	--	44,896
2004	38,115	9.4%	9,325	-7.2%	1,244	--	48,684
2005	34,115	-10.5%	8,882	-4.8%	2,462	97.9%	45,459
2006	44,204	29.6%	8,984	1.1%	5,831	136.8%	59,019

- (a) The Pledged Hotel Occupancy Tax (HOT) revenues are revenues (including penalties, interest and delinquencies, if any) received from that portion of the City HOT equal to 5.65% of the cost of substantially all hotel room rentals in the City (excluding any portion thereof attributable to the Hotel during its first ten years of operation). The City HOT is currently imposed at a rate of 7%.
- (b) The City's pledge of Pledged Parking Revenues is subordinate to the City's pledge of the first \$1,200,000 of such gross revenues, charges and tolls to the payment of its \$1,000,000 annual obligation under the Music Hall Lease, unless such obligation is paid, defeased, matures or is otherwise restructured.
- (c) Does not included investment earnings, which are included in pledged revenues.

Historical Tax Rebates
(amounts expressed in thousands)

The tax rebates pledged to certain Convention and Entertainment Facilities Bonds consist of rebates of hotel occupancy taxes, sales taxes, and mixed beverage taxes derived from the hotel and parking garage adjacent to the Convention Center during their first ten years of operation.

Fiscal Year	HOT Tax 15%	Sales Tax 8.25% ⁽¹⁾	Mixed Beverage Tax 3%	Total Tax Rebate
2004	\$ 1,081	\$ 111	\$ 52	\$ 1,244
2005	2,188	190	84	2,462
2006	5,553	197	81	5,831

(1) Includes taxes on food, telephone and other sales

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
Last Ten Fiscal Years
(unaudited)

Schedule of Hotel Occupancy Tax and Occupancy Rates

Fiscal Year	Occupancy % Rate (1)	Average Daily Rate (1)	Tax % Rate	Gross Hotel Occupancy Tax Revenues (in thousands)
1997	68.4%	80.59	7%	34,354
1998	66.7%	85.88	7%	38,270
1999	63.6%	86.92	7%	42,459
2000	64.3%	84.56	7%	42,550
2001	66.9%	85.77	7%	46,123
2002	62.0%	83.92	7%	43,452
2003	60.8%	82.36	7%	43,169
2004	61.3%	85.92	7%	47,223
2005	69.7%	89.88	7%	44,414
2006	73.2%	96.81	7%	60,319

(1) Source: Greater Houston Partnership.

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
For Fiscal Year 2006
(unaudited)

Schedule of Hotel Occupancy Tax Collections

<u>The Twelve Largest Taxpayers</u>	<u>Gross Hotel Occupancy Tax Collections</u>
Hilton Americas-Houston	\$ 2,656,360
Hyatt Regency Hotel	1,785,805
Four Seasons Hotel Houston Center	1,427,454
JW Marriott Galleria	1,333,327
Westin Galleria	1,282,049
Houston Marriott Westchase	1,104,982
Marriott Hotel	1,094,179
Wyndham Hotel Greenspoint	1,038,822
Inter Continental Houston	1,027,020
Westin Oaks Houston	1,024,870
Hilton Houston	1,018,760
Houstonian Hotel	944,656
Total	<u>\$ 15,738,284</u>

Top Ten Clients (Excluding Hotel Occupancy Tax Revenues)

Republic Parking Systems	\$ 8,965,534
Houston Convention Center Hotel Corporation	4,020,699
Aramark	1,880,904
Smart City	1,393,669
AVW	527,761
Houston Symphony Society	395,124
Greater Houston Convention and Visitors Bureau	363,580
Houston Arena/Toyota Center	295,740
Crème de la Crème	294,182
Houston Aquarium	150,000
Total	<u>\$ 18,287,193</u>

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
For Fiscal Year 2006
(unaudited)

Parking Facilities Rates

Facility	City Employee Monthly Contract (1)	Other Monthly Contract (2)	Daily Transient (2)	Event Rate (2)
Theater District Garage	\$70.00	\$125.00 \$75.00 (3)	\$3.00 per hour \$9.00 Maximum	\$5.00
City Hall Annex Parking Garage	\$51.76	\$75.00	n/a	\$5.00
City Hall Annex Parking Meters	n/a	n/a	\$.40 per hour	\$5.00
Fannin Garage	\$70.00	\$76.00	\$2.00 per hour \$5.00 Maximum	\$5.00
Lots C and H	\$44.33	\$48.00	n/a	\$3.00

(1) Does not include sales and use tax of 8.25%

(2) Includes sales and use tax of 8.25%

(3) Rates paid by Convention & Entertainment Facilities departmental contractors

Source: City of Houston, Convention & Entertainment Facilities Department

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
Debt Service Schedule
(unaudited)

The following table sets forth the Debt Service Requirements on all Convention & Entertainment Revenue Bonds Outstanding as of June 30, 2006, assuming scheduled mandatory redemption of any term bonds and using rates in effect at year-end for auction rate securities and variable rate demand obligations. The amounts do not include the Convention and Entertainment Center's Commercial Paper Notes.

Fiscal Year	Series 2001 A	Series 2001 B	Series 2001 C	Total Debt
Ending June 30	Bonds	Bonds	Bonds (1)	Service
2007	13,766,081	18,122,738	6,222,904	38,111,723
2008	13,733,281	20,075,231	6,217,345	40,025,857
2009	13,731,419	20,190,150	6,211,460	40,133,029
2010	13,742,113	21,718,544	6,222,904	41,683,561
2011	13,727,994	22,556,050	6,342,575	42,626,619
2012	13,731,719	22,829,244	6,217,019	42,777,982
2013	13,737,953	24,382,988	6,211,460	44,332,401
2014	13,735,941	24,521,616	6,222,904	44,480,461
2015	13,738,425	24,440,238	6,222,904	44,401,567
2016	13,743,525	16,325,319	6,336,690	36,405,534
2017	8,756,572	22,986,963	6,211,787	37,955,322
2018	9,696,281	22,698,700	6,222,904	38,617,885
2019	4,548,731	21,654,794	12,308,214	38,511,739
2020	5,512,031	22,066,819	12,380,604	39,959,454
2021	6,561,881	21,094,119	12,391,123	40,047,123
2022		29,121,925	12,598,142	41,720,067
2023		29,261,563	12,576,540	41,838,103
2024		30,597,669	12,638,038	43,235,707
2025		30,932,488	12,684,716	43,617,204
2026		32,207,594	12,773,427	44,981,021
2027		32,889,456	12,884,211	45,773,667
2028		33,368,825	12,979,033	46,347,858
2029		34,620,331	12,985,884	47,606,215
2030		35,123,056	13,137,710	48,260,766
2031		36,179,756	13,211,869	49,391,625
2032		36,631,363	13,310,734	49,942,097
2033		36,734,713	13,444,606	50,179,319
2034		38,108,331	11,784,009	49,892,340
2035				
Total	<u>\$ 172,463,947</u>	<u>\$ 761,440,583</u>	<u>\$ 278,951,716</u>	<u>\$ 1,212,856,246</u>

(1) Assumes an interest rate of 4.16% for the Series 2001C-1 Auction Rate Certificates and 4.17% for the 2001 C-2 Auction Rate Certificates.

CITY OF HOUSTON, TEXAS
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
For Fiscal Year 2006
(unaudited)

Convention & Entertainment Budget for Fiscal Year 2007
(amounts expressed in thousands)

Budgeted Resources

Operating Revenues

Facility Rentals	\$ 6,041
Parking	9,673
Food and Beverage Concessions	3,768
Contract Cleaning	<u>250</u>
Total Operating Revenues	<u>19,732</u>

Operating Expenses

Personnel	8,073
Supplies	1,066
Services	<u>29,654</u>
Total Operating Expenses	<u>38,793</u>
Operating Income (Loss)	<u>(19,061)</u>

Nonoperating Revenues (Expenses)

Hotel Occupancy Tax	
Current	47,000
Delinquent	1,000
Advertising Services	(11,270)
Promotion Contracts	(9,310)
Contracts/Sponsorships	<u>(2,100)</u>
Net Hotel Occupancy Tax	<u>25,320</u>
Investment Income (Loss)	1,525
Capital Outlay	(2,170)
Non-Capital Outlay	(160)
Other Interest	(2,300)
Other	<u>2,601</u>
Total nonoperating Rev (Exp)	<u>24,816</u>
Income (Loss) Before Operating Transfers	<u>5,755</u>

Operating Transfers

Transfers to Interest	(8,271)
Transfers to Principal	(8,300)
Interfund Transfers	-
Miller Outdoor Theater Transfer	1,137
Transfers to Special	2,000
Contingency/Reserve	<u>-</u>
Total Operating Transfers	<u>(13,434)</u>
Net Income (Loss) Operating Fund	<u>\$ (7,679)</u>

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Total Annual Revenues Last Ten Fiscal Years	1997	1998	1999
Operating Revenues			
Water sales	\$ 239,978	\$ 262,481	\$ 266,381
Waste water system user charges	250,821	264,576	264,076
Penalties	3,938	3,957	3,947
Other services and charges	3,273	3,178	2,962
Total Operating Revenues	<u>498,010</u>	<u>534,192</u>	<u>537,366</u>
Nonoperating Revenues			
Interest	41,176	41,078	37,978
Other income	10,819	12,193	18,116
Total Nonoperating Revenues	<u>51,995</u>	<u>53,271</u>	<u>56,094</u>
Total Revenues	<u>\$ 550,005</u>	<u>\$ 587,463</u>	<u>\$ 593,460</u>
Total Annual Expenses Last Ten Fiscal Years	1997	1998	1999
Operating Expenses			
Maintenance and operating	\$ 224,641	\$ 222,930	\$ 212,877
Depreciation and Amortization	166,244	174,994	190,205
Bad debt expense	1,733	1,071	740
Total Operating Expenses	<u>392,618</u>	<u>398,995</u>	<u>403,822</u>
Nonoperating Expenses			
Interest on long-term debt	143,123	160,253	155,201
Other expenses	9,498	7,225	4,863
Total Nonoperating Expenses	<u>152,621</u>	<u>167,478</u>	<u>160,064</u>
Total Expenses	<u>\$ 545,239</u>	<u>\$ 566,473</u>	<u>\$ 563,886</u>

2000	2001	2002	2003	2004	2005	2006
\$ 281,757	\$ 271,553	\$ 271,098	\$ 267,125	\$ 265,272	\$ 301,227	\$ 324,878
275,782	268,492	265,091	264,159	257,225	288,459	307,764
3,493	4,440	4,214	4,036	4,150	4,605	5,085
3,006	2,807	2,993	3,997	4,561	4,583	4,935
<u>564,038</u>	<u>547,292</u>	<u>543,396</u>	<u>539,317</u>	<u>531,208</u>	<u>598,874</u>	<u>642,662</u>
32,019	56,914	33,703	24,043	6,889	12,972	18,650
20,641	22,511	32,368	26,894	26,179	24,707	26,557
<u>52,660</u>	<u>79,425</u>	<u>66,071</u>	<u>50,937</u>	<u>33,068</u>	<u>37,679</u>	<u>45,207</u>
<u>\$ 616,698</u>	<u>\$ 626,717</u>	<u>\$ 609,467</u>	<u>\$ 590,254</u>	<u>\$ 564,276</u>	<u>\$ 636,553</u>	<u>\$ 687,869</u>

2000	2001	2002	2003	2004	2005	2006
\$ 225,258	\$ 248,603	\$ 245,943	\$ 250,226	\$ 266,718	\$ 332,800	\$ 302,955
212,846	256,959	228,147	233,401	209,608	224,074	228,665
1,000	-	-	-	-	-	-
<u>439,104</u>	<u>505,562</u>	<u>474,090</u>	<u>483,627</u>	<u>476,326</u>	<u>556,874</u>	<u>531,620</u>
164,650	172,749	164,482	165,509	204,875	201,142	214,880
4,057	3,315	9,708	722	12,402	4,193	5,622
<u>168,707</u>	<u>176,064</u>	<u>174,190</u>	<u>166,231</u>	<u>217,277</u>	<u>205,335</u>	<u>220,502</u>
<u>\$ 607,811</u>	<u>\$ 681,626</u>	<u>\$ 648,280</u>	<u>\$ 649,858</u>	<u>\$ 693,603</u>	<u>\$ 762,209</u>	<u>\$ 752,122</u>

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM REVENUE BOND COVERAGE
(amounts expressed in thousands)
(unaudited)

	Fiscal Year 2006	Fiscal Year 2005
OPERATING REVENUES		
Sales of water, net	\$ 324,878	\$ 301,227
Sewer system user charges, net	307,764	288,459
Penalties, other services and charges	10,020	9,188
Total Operating Revenues:	642,662	598,874
NON-OPERATING REVENUES		
Investment Earnings under Previous Ordinance	13,260	7,872
Investment Earnings under Master Ordinance	5,390	5,100
Non-Operating Revenues: Contributions from Water Authorities	33,374	-
Non-Operating Revenues: Gain on Escrow Restructuring	-	31,838
Other Non-Operating revenues	9,813	6,799
Total non-operating revenues	61,837	51,609
TOTAL GROSS REVENUES:	704,499	650,483
EXPENSES		
Contract Revenue Bonds Payments ⁽¹⁾		
Houston Area Water Corporation debt service	9,075	7,498
Coastal Water Authority Debt Service	29,871	29,192
Trinity River Authority Debt Service	2,212	2,354
Total Contract Revenue Bonds Payments	41,158	39,044
Maintenance and Operating Expenses	307,977	270,299
Total Expenses	349,135	309,343
RESTRICTED RECEIPTS UNDER MASTER ORDINANCE	16,744	15,948
NET REVENUES UNDER MASTER ORDINANCE	\$ 372,108	\$ 357,088
BOND DEBT SERVICE:		
Previously Issued Bonds	53,983	61,554
First Lien Bonds	167,248	124,115
Total Debt Service	\$ 221,231	\$ 185,669
BOND DEBT SERVICE COVERAGE:		
Junior Lien Bond Coverage under Previous Ordinance ⁽²⁾	6.48 x	5.46 x
First Lien Bond Coverage under Master Ordinance ⁽³⁾	1.90 x	2.38 x
TOTAL COVERAGE ⁽⁴⁾	1.68 x	1.92 x

(1) These are "Required Payments Under Previous Ordinance."

(2) Coverage of debt service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues Investment Earnings under Master Ordinance and Restricted Revenues.

(3) Coverage of Debt Service on First Lien Bonds by Net Revenues, less debt service on Junior Lien Bonds under Previous Ordinance.

(4) Coverage of total Debt Service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues.

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
System Budget (Fiscal Year 2007)
(amounts expressed in thousands)
(unaudited)

The following is the summary of the Fiscal Year 2007 Budget for the System as adopted by City Council:

Revenues	
Beginning Fund Balance (July 1, 2006)	\$ 243,964
Current Revenues	<u>699,763</u>
Total Revenues	<u><u>\$ 943,727</u></u>
Expenditures	
Maintenance and Operations	\$ 334,446
CWA/TRA Debt Service	32,875
HAWC Debt Service	9,077
Debt Service (including Prior Lien Bonds, Junior Lien Bonds and Commercial Paper)	<u>260,326</u>
Total Expenditures	636,724
Other	
General Purpose Fund (including Discretionary Debt Service)	81,090
Planned Fund Balance (June 30, 2007)	<u>225,913</u>
Total Expenditures and Reserves	<u><u>\$ 943,727</u></u>

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
(unaudited)

The following calculation shows coverage by Net Revenues of Maximum Annual Debt Service on the Previous Ordinance and First Lien Bonds after issuance of the 2006 and 2006A Bonds.

Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2019) ⁽¹⁾	139,219,336
Maximum Annual Debt Service Requirements on First Lien Bonds (2030) ^{(1) (2)}	292,524,287
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2023)	305,832,593
Net Revenues under Previous Ordinance for Fiscal Year ended June 30, 2006 ⁽³⁾	349,974,000
Net Revenues under Master Ordinance for Fiscal Year ended June 30, 2006 ⁽⁴⁾	372,108,000
Funds Available from General Purpose Fund at June 30, 2006	193,543,000
Total Funds available for Debt Service Coverage	565,651,000
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	2.51
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	1.93
Coverage of Combined Maximum Annual Debt Service Requirement ⁽⁵⁾	1.85

(1) Does not include debt service on CWA, TRA or HAWC Bonds, which are payable from Gross Revenues as a Maintenance and Operating Expense of the System.

(2) Debt service on the Series 2004B Bonds is calculated at the fixed swap rate of 3.7784%. Debt service on the 2004C Bonds is based on an assumed taxable rate with a maturity on the applicable Tax-Exempt Conversion Date. After the applicable Tax-Exempt Conversion Date, debt service on \$249,075,000 of the 2004C Bonds is calculated using the fixed swap rate of 3.761%, while debt service for the remainder of the 2004C bonds is calculated using a long term tax-exempt rate to maturity.

(3) Excludes Investment Earnings under Master Ordinance and Restricted Receipts under Master Ordinance.

(4) Net Revenues as calculated under the Master Ordinance, which includes as revenues restricted receipts and earnings under the Master Ordinance.

(5) Coverage under Master Ordinance for combined debt service on Previous Ordinance Bonds and First Lien Bonds.

THE SYSTEM - Sewer Facilities General

The Sewer Facilities receive and process wastewater generated in a service area that includes the City and certain municipalities and unincorporated communities in the Houston metropolitan area. The Sewer Facilities consist of sanitary sewer lines, permitted wastewater treatment plants, sludge treatment facilities, pumping stations and a centralized laboratory. The general condition of the collection lines of the Sewer Facilities varies depending on age, location and type of construction. The average daily wastewater flow through the Sewer Facilities for Fiscal Year 2006 was 238.2 mgd. The effective treatment capacity of the Sewer Facilities, as reflected by State permits, was 562.9 mgd as of December 31, 2006.

THE SYSTEM - Annexation Program - In - City Districts

The City has created reinvestment zones and public improvement districts in which infrastructure improvements, including water and wastewater facilities, will be financed by the respective district or zone through bonds supported by assessments within the districts and by a tax increment fund into which will be deposited the amount of ad valorem taxes collected in the reinvestment zones in excess of the amount calculated on the basis of the property tax appraisals in effect at the time of creation of the particular reinvestment zone. Under State law, the City can create a public improvement district both within the corporate limits of the City and within its extraterritorial jurisdiction.

**CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
(unaudited)**

Funding of Proposed System Improvements

It is anticipated that the system improvements contemplated in the Department's Fiscal Year 2007 - 2011 CIP will be financed approximately as follows:

Proposed Source of Funding	Amount (in millions)
System Revenue Bonds (Net Proceeds and interest earnings)	\$ 1,375 (*)
	\$ 1,375

- (*) The department's fiscal year 2007 - 2011 CIP anticipates the periodic issuance of additional Prior Lien Bonds, Junior Lien Bonds and Subordinate Lien Commercial Paper. City Council must approve each issuance of bonds.

Obligations Payable from System Revenues

The following sets forth the total outstanding principal amount of the system obligations payable from revenues of the system as of June 30, 2006:

Contract Revenue Bonds Payable from System Gross Revenues	Amount
CWA Bonds (1)	\$ 222,505,000
TRA Bonds (2)	4,000,000
HAWC Bonds (3)	127,895,000
	354,400,000

System Revenue Bonds Payable from System Net Revenues (4)

Previous Ordinance Bonds	799,832,000
First Lien Bonds	3,415,940,000
Third Lien Obligations (5)	226,800,000
	4,442,572,000
Total - All Bonds Payable from System Revenues	\$ 4,796,972,000

- (1) Under a 1968 agreement, as amended and superseded in part, and a 1995 agreement, CWA agreed to construct the CWA conveyance system and certain other projects and the City agreed to pay, as a maintenance and operation expense of the System, amounts calculated to be sufficient to cover maintenance and operation expenses of the CWA Conveyance System plus debt service of the CWA Bonds. CWA has reserved the right to issue an unlimited amount of additional bonds on parity with those currently outstanding, however, such issuances are subject to the approval of the City.
- (2) Under the 1964 agreement, as supplemented, the City and TRA agreed to construct Lake Livingston, and the City agreed to pay, as a maintenance and operation expense of the System, amounts calculated to be sufficient to cover the maintenance and operation expenses of Lake Livingston, plus debt service on the TRA (Livingston Project) Bonds, less recoupment of a maximum of 30 percent of such cost.
- (3) Under a 2001 agreement, the City contracted with HAWC to cause the construction of the NEWPP, and, pursuant to the treated water supply contract, the City agreed to pay, as a maintenance and operating expense of the System, debt service on HAWC's first series of bonds which were issued in the principal amount of \$130,260,000, in May, 2002 to finance the NEWPP, along with all maintenance and operating expenses relating to the NEWPP and HAWC.

**CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
(unaudited)**

Discretionary Debt Service Paid by the System

The total amount of Discretionary Debt Service paid from Net Revenues of the System for the past six Fiscal Years and the amount budgeted for Fiscal year 2007 is set forth below:

<u>Fiscal Year</u>	<u>Discretionary Debt Service (in millions)</u>
2007 (budgeted)	\$ 24.6
2006	26.3
2005	28.2
2004	29.6
2003	23.8
2002	36.5

Combined Utility System General Purpose Fund Transfers for Drainage

Since Fiscal Year 2005 the Combined Utility System has made transfers from its General Purpose Fund to the Storm Water Fund as shown below.

<u>Fiscal Year</u>	<u>General Purpose Fund Transfers (millions)</u>
2007 (budgeted)	\$ 34.8
2006	31.3
2005	30.0

Indirect Charges Paid by the System

<u>Fiscal Year</u>	<u>Indirect Charges (in thousands)</u>
2007 (budgeted)	\$ 2,157
2006	2,157
2005	1,236
2004	4,696
2003	6,877
2002	6,877

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
(unaudited)

Largest Sewer Customers

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve month period ended June 30, 2006. The total charges to such customers represent approximately 3.8% of the System Gross Revenues and 8.2% of Sewer Facilities' gross charges during such period.

<u>Customer</u>	<u>Gross Charges</u>
1. Anheuser - Busch, Inc.	\$ 7,376,326
2. City of Houston	4,191,291
3. Harris County	3,022,517
4. Houston Independent School District	2,719,135
5. University of Houston	2,060,046
6. Hermann Hospital	1,705,681
7. General Foods, Inc.	1,367,853
8. M. D. Anderson Cancer Center	1,193,758
9. Gerald D. Hines	934,949
10. Methodist Hospital	903,872
	<u>\$ 25,475,428</u>

Water and Sewer Rate Adjustments

In recent years, the water and sewer rates have been adjusted on the average as follows:

<u>Date of Change</u>	<u>Average Percent Rate</u>	
	<u>Water</u>	<u>Sewer</u>
July 1988	8.5%	7.6%
August 1989	6.0%	7.5%
July 1990	5.5%	7.5%
February 1992	2.0%	6.0%
March 1993	2.5%	4.0%
June 2004	9.2%	10.1%
April 2005	3.5%	3.5%
April 2006	3.6%	3.6%

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
Debt Service Schedule
(unaudited)

The following schedule sets forth the debt service requirements on all outstanding bonds payable from revenues of the Combined Utility System as of May 19, 2007 for each of the City's fiscal years ending June 30 based on footnoted assumptions. The schedule does not include Discretionary Debt Service payments or Commercial Paper Notes issued as Third Lien Obligations.

Fiscal Year Ending June 30	Total Payable From System Gross Revenues ⁽¹⁾	Payable From System Net Revenues			Total Debt Service ^{(1) (2)}
		Previous Ordinance Bonds	First Lien Bonds ⁽²⁾	Total Payable From System Net Revenues	
2007	41,951,247	61,037,306	179,923,594	240,960,900	282,912,147
2008	41,718,630	61,548,050	177,927,033	239,475,083	281,193,713
2009	37,177,734	73,353,595	181,075,733	254,429,328	291,607,062
2010	32,894,026	82,267,989	204,943,670	287,211,659	320,105,685
2011	30,441,545	87,168,868	204,301,383	291,470,251	321,911,796
2012	29,663,250	107,856,772	187,058,451	294,915,223	324,578,473
2013	28,912,380	107,188,212	188,766,895	295,955,107	324,867,487
2014	28,118,148	77,804,468	224,664,920	302,469,388	330,587,536
2015	27,322,190	89,521,320	212,930,705	302,452,025	329,774,215
2016	27,110,385	89,184,040	213,322,549	302,506,589	329,616,974
2017	16,633,071	80,800,280	221,787,038	302,587,318	319,220,389
2018	15,826,369	52,112,098	251,734,615	303,846,713	319,673,082
2019	15,814,256	139,219,336	166,386,030	305,605,366	321,419,622
2020	15,815,131	56,297,338	249,298,028	305,595,366	321,410,497
2021	15,830,556	43,100,950	262,509,715	305,610,665	321,441,221
2022	15,794,231	36,151,869	269,668,468	305,820,337	321,614,568
2023	15,788,569	33,247,860	272,584,733	305,832,593	321,621,162
2024	15,777,469	34,487,039	270,891,265	305,378,304	321,155,773
2025	15,769,131	33,357,575	271,945,655	305,303,230	321,072,361
2026	16,735,775	18,155,000	285,050,230	303,205,230	319,941,005
2027	12,627,656	30,815,000	260,429,618	291,244,618	303,872,274
2028	12,627,000	30,810,000	260,425,768	291,235,768	303,862,768
2029	12,622,538	44,095,000	247,535,527	291,630,527	304,253,065
2030	12,621,669		292,524,287	292,524,287	305,145,956
2031	12,623,407		291,824,598	291,824,598	304,448,005
2032	12,618,094		291,097,684	291,097,684	303,715,778
2033	3,534,725		290,327,773	290,327,773	293,862,498
2034	3,532,013		289,551,113	289,551,113	293,083,126
2035	3,531,938		22,755,734	22,755,734	26,287,672
2036			22,754,078	22,754,078	22,754,078
Total	\$ 571,433,133	\$ 1,469,579,965	\$ 6,765,996,890	\$ 8,235,576,855	\$ 8,807,009,988

(1) Includes CWA Bonds (and the Series 1993 COPs), TRA Bonds (Lake Livingston Project) and HAWC Bonds.

(2) Series 2004-C variable rate bond debt service is calculated using current market fixed rates. Debt service is calculated based on an assumed taxable rate with a maturity on the applicable tax-exempt conversion date. After the applicable Tax-Exempt Conversion Date, debt service is calculated using a long term tax-exempt rate to maturity. \$249,075,000 of the Series 2004-C variable rate bond debt service is calculated at the fixed payor swap rate of 3.761% beginning 12/03/2007. Series 2004-B debt service is adjusted to take into account expected payments under the Series 2004-B Qualified hedge agreements.

**CITY OF HOUSTON, TEXAS
 COMBINED UTILITY SYSTEM STATISTICS
 Water Supply
 (unaudited)**

Capacity, Production, and Sales

The following schedule sets forth information concerning Water Facilities capacity, production and sales for Fiscal Year 2006 (million gallons per day):

	<u>Available</u>	<u>Capacity</u>	<u>Daily</u>	<u>Peak</u>	<u>Sales</u>
Ground	154.0	327.0	100.0	-	N/A
Surface	1,090.0	1,202.0	529.0	-	N/A
Total	<u>1,244.0</u>	<u>1,529.0</u>	<u>629.0</u>	<u>-</u>	<u>588.4</u>
Treated					333.3
Untreated					255.1
					<u>588.4</u>

Sources of System Revenues - General

As of June 30, 2006, the Water Facilities and the Sewer Facilities served approximately 423,490 and 410,450 active service connections, respectively. During Fiscal Year 2006 approximately 47.6% of System Gross Revenues were derived from the sale of water (88% from treated water and 12% from untreated water), approximately 44.5% from providing wastewater treatment services, 2.6% from interest income and the remaining 5.3% from various other sources. Of the treated water sales, 91% of revenues were from retail customers and 9% from bulk sales to other governmental entities.

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM STATISTICS
Water Supply
(unaudited)

Largest Treated Water Customers

The following schedule presents information concerning the ten largest treated water customers of the System for the twelve month period ended June 30, 2006. The total charges to such customers during such period represent approximately 3.9% of the System Gross Revenues and 8.0% of total water sales revenues for such period.

<u>Customers</u>	<u>Charges</u>
1. City of Pasadena	\$ 5,791,273
2. North Channel Water Authority	4,523,390
3. Anheuser-Busch, Inc.	3,068,092
4. Clear Lake City Water Authority	2,626,905
5. Harris County	2,403,663
6. Houston Independent School District	2,016,972
7. City of Pearland	1,594,086
8. City of Houston	1,563,830
9. University of Houston	1,510,788
10. Gulf Coast Water Authority	1,381,069
	<u>\$ 26,480,068</u>

Largest Untreated Water Customers

The following schedule presents information concerning the ten largest untreated water customers of the System for a twelve month period ended June 30, 2006. The total of the contract payments by these ten customers during such period represents approximately 3.7% of the System Gross Revenues and 7.5% of total water sales revenues for such period.

<u>Customers</u>	<u>Charges</u>
1. Equistar Chemicals LP	\$ 5,338,472
2. Houston Area Water Corporation	3,759,056
3. Shell Oil Company	2,932,623
4. Battleground Water Company	2,925,649
5. Air Liquide America Corporation	2,162,421
6. Chevron Phillips Chemical Company, LP	1,994,444
7. Baytown Water Authority	1,872,419
8. Lyondell - Citgo Refining Company LTD	1,797,295
9. Hoescht Celanese Chemical Group, LTD	1,081,839
10. Occidental Chemical Corporation	1,021,902
	<u>\$ 24,886,120</u>

**CITY OF HOUSTON
COMBINED UTILITY SYSTEM STATISTICS
Last Five Fiscal Years
(amounts expressed in thousands)
(unaudited)**

Revenues and Expenses of the Water and Sewer System

The following schedule sets forth the revenues and expenses (exclusive of certain non-cash transactions, primarily depreciation and amortization) of the "Water and Sewer System," as defined in the Coastal Water Authority Official Statements, for Fiscal Years ending June 30, 2002 through June 30, 2006.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
OPERATING REVENUES					
Sales of Water, net	\$ 271,098	\$ 267,125	\$ 265,272	\$ 301,227	\$ 324,878
Sewer system user charges, net	265,091	264,159	257,225	288,459	307,764
Penalties	4,214	4,036	4,150	4,605	5,085
Other services and charges	2,994	3,997	4,561	4,583	4,935
Total Operating Revenues	<u>543,397</u>	<u>539,317</u>	<u>531,208</u>	<u>598,874</u>	<u>642,662</u>
NON-OPERATING REVENUES	<u>47,192</u>	<u>30,585</u>	<u>93,089</u>	<u>19,771</u>	<u>26,557</u>
TOTAL GROSS REVENUES (A)	<u>590,589</u>	<u>569,902</u>	<u>624,297</u>	<u>618,645</u>	<u>669,219</u>
OPERATING EXPENSES					
Maintenance and Operating Expenses	<u>245,943</u>	<u>250,226</u>	<u>266,718</u>	<u>270,299</u>	<u>301,646</u>
Contractual Maintenance and Operating Expenses					
CWA Debt Service	30,091	28,878	28,980	29,192	29,871
TRA Debt Service	2,140	2,056	2,474	2,354	2,212
HAWC Debt Service	-	-	6,710	6,710	6,242
Total Contractual	<u>32,231</u>	<u>30,934</u>	<u>38,164</u>	<u>38,256</u>	<u>38,325</u>
TOTAL OPERATING EXPENSES (B)	<u>278,174</u>	<u>281,160</u>	<u>304,882</u>	<u>308,555</u>	<u>339,971</u>
NET REVENUES	<u>\$ 312,415</u>	<u>\$ 288,742</u>	<u>\$ 319,415</u>	<u>\$ 310,090</u>	<u>\$ 329,248</u>
GROSS REVENUES (A) DIVIDED BY TOTAL EXPENSES (B)	2.123	2.027	2.048	2.005	1.968

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Total Annual Revenues Last Ten Fiscal Years	<u>1997</u>	<u>1998</u>	<u>1999</u>
Operating Revenues			
Landing area fees	\$ 43,371	\$ 43,739	\$ 37,506
Building and ground area fees	54,362	54,479	59,921
Parking, concession and other revenues	69,272	75,827	84,944
Total Operating Revenues	<u>167,005</u>	<u>174,045</u>	<u>182,371</u>
Nonoperating Revenues			
Interest income	10,894	13,213	21,762
Other nonoperating revenues	56	664	207
Total Nonoperating Revenues	<u>10,950</u>	<u>13,877</u>	<u>21,969</u>
Total Revenues	<u>\$ 177,955</u>	<u>\$ 187,922</u>	<u>\$ 204,340</u>
Total Annual Expenses Last Ten Fiscal Years	<u>1997</u>	<u>1998</u>	<u>1999</u>
Operating Expenses			
Maintenance and operating	\$ 93,471	\$ 100,040	\$ 117,206
Depreciation	39,002	43,166	42,537
Total Operating Expenses	<u>132,473</u>	<u>143,206</u>	<u>159,743</u>
Nonoperating Expenses			
Interest expense and others	18,859	18,376	32,471
Total Nonoperating Expenses	<u>18,859</u>	<u>18,376</u>	<u>32,471</u>
Total Expenses	<u>\$ 151,332</u>	<u>\$ 161,582</u>	<u>\$ 192,214</u>

2000	2001	2002	2003	2004	2005	2006
\$ 40,930	\$ 48,298	\$ 50,826	\$ 51,162	\$ 57,011	\$ 102,072	\$ 101,758
72,988	74,168	84,752	91,801	115,777	151,417	179,951
95,217	99,708	91,877	97,804	97,625	100,152	112,152
<u>209,135</u>	<u>222,174</u>	<u>227,455</u>	<u>240,767</u>	<u>270,413</u>	<u>353,641</u>	<u>393,861</u>
25,027	66,846	37,629	30,278	5,967	14,968	18,507
188	828	942	681	203	4,295	56
<u>25,215</u>	<u>67,674</u>	<u>38,571</u>	<u>30,959</u>	<u>6,170</u>	<u>19,263</u>	<u>18,563</u>
<u>\$ 234,350</u>	<u>\$ 289,848</u>	<u>\$ 266,026</u>	<u>\$ 271,726</u>	<u>\$ 276,583</u>	<u>\$ 372,904</u>	<u>\$ 412,424</u>

2000	2001	2002	2003	2004	2005	2006
\$ 113,442	\$ 122,594	\$ 142,950	\$ 154,541	\$ 168,923	\$ 223,972	\$ 202,496
46,390	52,410	60,088	59,987	88,371	105,891	134,150
<u>159,832</u>	<u>175,004</u>	<u>203,038</u>	<u>214,528</u>	<u>257,294</u>	<u>329,863</u>	<u>336,646</u>
44,354	65,387	44,165	46,538	54,853	75,908	94,586
44,354	65,387	44,165	46,538	54,853	75,908	94,586
<u>\$ 204,186</u>	<u>\$ 240,391</u>	<u>\$ 247,203</u>	<u>\$ 261,066</u>	<u>\$ 312,147</u>	<u>\$ 405,771</u>	<u>\$ 431,232</u>

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
Passenger Statistics
(unaudited)

Fiscal Year	Domestic Passengers					
	Intercontinental		Hobby		Ellington Field	
	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
1997	23,839	5.8%	8,330	1.5%	101	13.5%
1998	25,543	7.1%	8,597	3.2%	113	11.9%
1999	27,271	6.8%	8,795	2.3%	100	-11.5%
2000	28,892	5.9%	9,053	2.9%	89	-11.0%
2001	30,105	4.2%	9,038	-0.2%	64	-28.1%
2002	28,168	-6.4%	8,192	-9.4%	68	6.3%
2003	27,931	-0.8%	7,796	-4.8%	81	19.1%
2004	29,473	5.5%	8,089	3.8%	80	-1.2%
2005	31,609	7.2%	8,247	2.0%	14	-82.5%
2006	34,103	7.9%	8,423	2.1%	0	-100.0%

Domestic Passengers		International Passengers		Total Passengers	
Total		Intercontinental			
Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
32,270	4.6%	3,614	14.8%	35,884	5.6%
34,253	6.1%	4,161	15.1%	38,414	7.1%
36,166	5.6%	4,801	15.4%	40,967	6.6%
38,034	5.2%	5,340	11.2%	43,374	5.9%
39,207	3.1%	5,811	8.8%	45,018	3.8%
36,428	-7.1%	5,556	-4.4%	41,984	-6.7%
35,808	-1.7%	5,526	-0.5%	41,334	-1.5%
37,642	5.1%	5,960	7.9%	43,602	5.5%
39,870	5.9%	6,818	14.4%	46,688	7.1%
42,526	6.7%	7,123	4.5%	49,649	6.3%

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
(unaudited)

Airline Market Shares

Domestic

Airlines	Intercontinental				Hobby			
	Fiscal Year 2005		Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2006	
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
Air Tran	-	0.0%	-	0.0%	341,950	4.1%	339,652	4.0%
America West	454,592	1.2%	367,327	0.9%	-	0.0%	-	0.0%
American Airlines, Inc.	1,052,115	2.7%	1,075,834	2.6%	71,887	0.9%	55,324	0.7%
American Connection	-	0.0%	-	0.0%	-	0.0%	15,558	0.2%
American Eagle - AA	-	0.0%	-	0.0%	231,280	2.8%	263,438	3.1%
ATA Airlines	-	0.0%	-	0.0%	-	0.0%	51,212	0.6%
Atlantic Southeast - DL	117,864	0.3%	133,327	0.3%	111,435	1.4%	100,629	1.2%
Charter Airlines	20,623	0.1%	2,555	0.0%	2,627	0.0%	4,357	0.1%
Chautauqua Airlines - DL	43,897	0.1%	16,330	0.0%	-	0.0%	10,761	0.1%
Chautauqua Airlines - UA	89,074	0.2%	-	0.0%	-	0.0%	-	0.0%
Colgan - Air Inc, - CO	63,671	0.2%	511,611	1.3%	-	0.0%	-	0.0%
Comair - DL	64,440	0.2%	101,541	0.3%	18,295	0.2%	-	0.0%
Continental	19,898,394	51.8%	20,940,495	50.8%	28,045	0.3%	-	0.0%
ExpressJet Airlines, Inc.	6,720,126	17.5%	8,478,037	20.6%	14,590	0.2%	-	0.0%
Delta	624,435	1.6%	528,212	1.3%	303,853	3.7%	139,753	1.7%
Frontier	189,928	0.5%	171,639	0.4%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - American West	1,882	0.0%	40,743	0.1%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - US	399	0.0%	148,648	0.4%	-	0.0%	-	0.0%
Midwest Airlines, Inc.	-	0.0%	-	0.0%	-	0.0%	19,624	0.2%
MN Airlines , Inc.	-	0.0%	-	0.0%	-	0.0%	7,073	0.1%
Northwest	677,689	1.8%	600,100	1.5%	-	0.0%	-	0.0%
PSA Airlines - US	59,481	0.2%	30,909	0.1%	-	0.0%	-	0.0%
Republic Airlines - US	-	0.0%	57,027	0.1%	-	0.0%	-	0.0%
Shuttle America Corporation - UA	-	0.0%	135,294	0.3%	-	0.0%	-	0.0%
SkyWest Airlines - CO	292,458	0.8%	48	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - DL	-	0.0%	2,809	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	14,306	0.0%	72,382	0.2%	-	0.0%	-	0.0%
Southwest Airlines Company	167,757	0.4%	-	0.0%	7,123,101	86.4%	7,415,573	88.0%
United Air Lines Inc.	625,191	1.6%	465,768	1.1%	-	0.0%	-	0.0%
US Airways	430,220	1.1%	222,137	0.5%	-	0.0%	-	0.0%
Total Domestic	31,608,542	82.3%	34,102,773	82.8%	8,247,063	100.0%	8,422,954	100.0%

International

Airlines	Fiscal Year 2005		Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2006	
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
	AeroMexico	127,672	0.3%	140,916	0.3%			
Aerolitoral	183	0.0%	80	0.0%				
Air Canada	72,122	0.2%	21,738	0.1%				
Air Canada Jazz	66,058	0.2%	156,704	0.4%				
Air France	156,596	0.4%	194,632	0.5%				
Air Jamaica	16,441	0.0%	-	0.0%				
Aviacsa	107,307	0.3%	70,363	0.2%				
British Airways	193,060	0.5%	217,221	0.5%				
Cayman Airways, LTD	10,775	0.0%	13,291	0.0%				
Charter Airlines	103,903	0.3%	54,113	0.1%				
China Airlines	54,456	0.1%	54,614	0.1%				
Continental	4,404,803	11.4%	4,451,631	10.8%				
ExpressJet Airlines, Inc.	1,039,670	2.7%	1,292,759	3.1%				
KLM	220,939	0.6%	215,816	0.5%				
Lufthansa	145,599	0.4%	147,894	0.4%				
Pakistn Int'l Airlines	28,692	0.1%	30,454	0.1%				
TACA	69,510	0.2%	61,265	0.1%				
Total International	6,817,786	17.7%	7,123,491	17.2%				
Total Airlines	38,426,328	100.0%	41,226,264	100.0%	8,247,063	100.0%	8,422,954	100.0%

Domestic only

Ellington Field				Houston Airport System			
Fiscal Year 2005		Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2006	
Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
-	0.0%	-	0.0%	341,950	0.7%	339,652	0.7%
-	0.0%	-	0.0%	454,592	1.0%	367,327	0.7%
-	0.0%	-	0.0%	1,124,002	2.4%	1,131,158	2.3%
-	0.0%	-	0.0%	-	0.0%	15,558	0.0%
-	0.0%	-	0.0%	231,280	0.5%	263,438	0.5%
-	0.0%	-	0.0%	-	0.0%	51,212	0.1%
-	0.0%	-	0.0%	229,299	0.5%	233,956	0.5%
-	0.0%	-	0.0%	23,250	0.0%	6,912	0.0%
-	0.0%	-	0.0%	43,897	0.1%	27,091	0.1%
-	0.0%	-	0.0%	89,074	0.2%	-	0.0%
-	0.0%	-	0.0%	63,671	0.1%	511,611	1.0%
-	0.0%	-	0.0%	82,735	0.2%	101,541	0.2%
-	0.0%	-	0.0%	19,926,439	42.7%	20,940,495	42.2%
14,379	100.0%	-	0.0%	6,749,095	14.5%	8,478,037	17.1%
-	0.0%	-	0.0%	928,288	2.0%	667,965	1.3%
-	0.0%	-	0.0%	189,928	0.4%	171,639	0.3%
-	0.0%	-	0.0%	1,882	0.0%	40,743	0.1%
-	0.0%	-	0.0%	399	0.0%	148,648	0.3%
-	0.0%	-	0.0%	-	0.0%	19,624	0.0%
-	0.0%	-	0.0%	-	0.0%	7,073	0.0%
-	0.0%	-	0.0%	677,689	1.5%	600,100	1.2%
-	0.0%	-	0.0%	59,481	0.1%	30,909	0.1%
-	0.0%	-	0.0%	-	0.0%	57,027	0.1%
-	0.0%	-	0.0%	-	0.0%	135,294	0.3%
-	0.0%	-	0.0%	292,458	0.6%	48	0.0%
-	0.0%	-	0.0%	-	0.0%	2,809	0.0%
-	0.0%	-	0.0%	14,306	0.0%	72,382	0.1%
-	0.0%	-	0.0%	7,290,858	15.6%	7,415,573	15.0%
-	0.0%	-	0.0%	625,191	1.3%	465,768	0.9%
-	0.0%	-	0.0%	430,220	0.9%	222,137	0.5%
14,379	100.0%	-	0.0%	39,869,984	85.3%	42,525,727	85.6%

Houston Airport System							
Fiscal Year 2005		Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2006	
Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
-	-	-	-	127,672	0.3%	140,916	0.3%
-	-	-	-	183	0.0%	80	0.0%
-	-	-	-	72,122	0.2%	21,738	0.1%
-	-	-	-	66,058	0.2%	156,704	0.3%
-	-	-	-	156,596	0.3%	194,632	0.4%
-	-	-	-	16,441	0.0%	-	0.0%
-	-	-	-	107,307	0.2%	70,363	0.2%
-	-	-	-	193,060	0.4%	217,221	0.4%
-	-	-	-	10,775	0.0%	13,291	0.0%
-	-	-	-	103,903	0.2%	54,113	0.1%
-	-	-	-	54,456	0.1%	54,614	0.1%
-	-	-	-	4,404,803	9.5%	4,451,631	9.0%
-	-	-	-	1,039,670	2.2%	1,292,759	2.6%
-	-	-	-	220,939	0.5%	215,816	0.4%
-	-	-	-	145,599	0.3%	147,894	0.3%
-	-	-	-	28,692	0.1%	30,454	0.1%
-	-	-	-	69,510	0.2%	61,265	0.1%
-	-	-	-	6,817,786	14.7%	7,123,491	14.4%
14,379	100.0%	0	0.0%	46,687,770	100.0%	49,649,218	100.0%

Domestic only

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
Selected Financial Information
Operating Fund Only
For the year ended June 30
(amounts expressed in thousands)
(unaudited)

	1997	1998
Operating Revenues		
Landing Area Fees:		
Landing Fees	\$ 41,930	\$ 42,275
Aviation Fuel	1,062	1,111
Aircraft Parking	379	353
Subtotal	43,371	43,739
 Building and Ground Area Revenues:		
Building Space	-	-
Terminal Space	42,855	42,892
Cargo Building	2,035	2,084
Other Building	2,135	2,075
Hangar Rental	1,001	1,063
Ground Rental	3,701	3,838
Concourse Security	1,287	1,270
Flight Information Display System	571	531
Public Address System	777	726
Subtotal	54,362	54,479
 Parking, Concession and other Revenues:		
Terminal Concessions	14,670	16,455
Auto Parking	36,794	39,213
Auto Rental	14,412	15,828
Ground Transportation	2,906	3,334
Special Events	-	-
Vending Machine	-	-
Other Operating Income	490	997
Subtotal	69,272	75,827
 Total Operating Revenues	\$ 167,005	\$ 174,045
 Nonoperating Revenues		
Interest on Investments	6,080	9,813
Other	56	95
Subtotal	6,136	9,908
 Total Gross Revenues	\$ 173,141	\$ 183,953
 Operation and Maintenance Expenses		
Personnel and Other Current Expenses	\$ 95,020	\$ 100,032
Bad Debt Expense	8	8
 Total Operating and Maintenance Expenses	\$ 95,028	\$ 100,040
 Net Revenue	\$ 78,113	\$ 83,913
 Total Debt Service	\$ 32,220	\$ 32,955
Less: grant revenue available for debt service	-	-
 Debt Service Requirement (per Bond Ordinance)	\$ 32,220	\$ 32,955
 Coverage of debt Service	x <u>2.42</u> x	x <u>2.55</u> x

1999	2000	2001	2002	2003	2004	2005	2006
\$ 35,930	\$ 39,116	\$ 46,735	\$ 49,424	\$ 49,211	\$ 53,906	\$ 99,197	\$ 98,385
978	1,259	895	838	910	1,112	1,400	1,559
598	555	668	564	1,041	1,993	1,475	1,814
<u>37,506</u>	<u>40,930</u>	<u>48,298</u>	<u>50,826</u>	<u>51,162</u>	<u>57,011</u>	<u>102,072</u>	<u>101,758</u>
-	-	-	-	-	-	-	3,741
47,775	62,738	63,172	73,116	79,547	101,040	136,074	162,491
2,075	2,077	1,923	1,863	1,638	982	893	1,553
2,103	2,036	2,078	2,262	2,192	3,065	3,354	60
1,039	1,251	1,605	1,902	2,499	2,499	2,077	2,349
4,296	4,886	5,388	5,607	5,923	8,189	9,018	9,757
1,287	-	2	2	2	2	1	-
566	-	-	-	-	-	-	-
780	-	-	-	-	-	-	-
<u>59,921</u>	<u>72,988</u>	<u>74,168</u>	<u>84,752</u>	<u>91,801</u>	<u>115,777</u>	<u>151,417</u>	<u>179,951</u>
19,802	25,262	23,721	22,444	25,355	22,563	19,823	21,030
42,304	46,662	51,285	46,955	50,103	51,437	55,444	62,377
15,423	18,326	18,787	16,886	15,978	16,800	18,065	21,438
4,701	2,549	4,535	3,274	3,834	3,737	3,954	3,999
-	-	-	-	-	-	-	20
-	-	-	-	-	-	-	20
2,714	2,418	1,380	2,318	2,534	3,088	2,866	3,268
<u>84,944</u>	<u>95,217</u>	<u>99,708</u>	<u>91,877</u>	<u>97,804</u>	<u>97,625</u>	<u>100,152</u>	<u>112,152</u>
<u>\$ 182,371</u>	<u>\$ 209,135</u>	<u>\$ 222,174</u>	<u>\$ 227,455</u>	<u>\$ 240,767</u>	<u>\$ 270,413</u>	<u>\$ 353,641</u>	<u>\$ 393,861</u>
9,631	9,677	12,396	12,816	10,650	8,406	10,498	17,742
207	99	680	4,520	504	114	4,175	(58)
<u>9,838</u>	<u>9,776</u>	<u>13,076</u>	<u>17,336</u>	<u>11,154</u>	<u>8,520</u>	<u>14,673</u>	<u>17,684</u>
<u>\$ 192,209</u>	<u>\$ 218,911</u>	<u>\$ 235,250</u>	<u>\$ 244,791</u>	<u>\$ 251,921</u>	<u>\$ 278,933</u>	<u>\$ 368,314</u>	<u>\$ 411,545</u>
\$ 117,189	\$ 113,042	\$ 122,542	\$ 142,877	\$ 153,173	\$ 161,204	\$ 191,093	\$ 205,565
17	400	52	73	1,368	441	-	-
<u>\$ 117,206</u>	<u>\$ 113,442</u>	<u>\$ 122,594</u>	<u>\$ 142,950</u>	<u>\$ 154,541</u>	<u>\$ 161,645</u>	<u>\$ 191,093</u>	<u>\$ 205,565</u>
<u>\$ 75,003</u>	<u>\$ 105,469</u>	<u>\$ 112,656</u>	<u>\$ 101,841</u>	<u>\$ 97,380</u>	<u>\$ 117,288</u>	<u>\$ 177,221</u>	<u>\$ 205,980</u>
\$ 33,942	\$ 38,455	\$ 50,027	\$ 51,611	\$ 63,988	\$ 75,797	\$ 112,248	\$ 140,513
-	-	(2,798)	(37,153)	(30,282)	(32,823)	(25,506)	(46,621)
<u>\$ 33,942</u>	<u>\$ 38,455</u>	<u>\$ 47,229</u>	<u>\$ 14,458</u>	<u>\$ 33,706</u>	<u>\$ 42,974</u>	<u>\$ 86,742</u>	<u>\$ 93,892</u>
<u>2.21</u> x	<u>2.74</u> x	<u>2.39</u> x	<u>7.04</u> x	<u>2.89</u> x	<u>2.73</u> x	<u>2.04</u> x	<u>2.19</u>

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
Total Aircraft Operations and Aircraft Landing Weight
(unaudited)

Fiscal Year	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
1997	768	34	4.63%	26,822	744	2.85%
1998	789	21	2.73%	28,253	1,431	5.34%
1999	796	7	0.89%	30,119	1,866	6.60%
2000	827	31	3.89%	31,495	1,376	4.57%
2001	823	(4)	-0.48%	32,083	588	1.87%
2002	790	(33)	-4.01%	30,496	(1,587)	-4.95%
2003	811	21	2.66%	30,802	306	1.00%
2004	856	45	5.55%	31,444	642	2.08%
2005	887	31	3.62%	32,488	1,044	3.32%
2006	933	46	5.19%	32,813	325	1.00%

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
System Debt Service Schedule
(unaudited)

The following table sets forth the Debt Service Requirements on all Airport Revenue Bonds Outstanding as of June 30, 2006, assuming scheduled mandatory redemption of any term bonds and using rates in effect at year-end for auction rate securities and variable rate demand obligations. The amounts do not include the Airport System's Senior Lien Commercial Paper Notes.

Fiscal Year (ending June 30)	Subordinate Lien Bonds Debt Service		Total
	Principal	Interest	
2007	28,385,000	107,728,598	136,113,598
2008	29,825,000	106,267,517	136,092,517
2009	41,515,000	104,343,925	145,858,925
2010	43,020,000	102,142,644	145,162,644
2011	46,005,000	100,049,689	146,054,689
2012	50,315,000	97,385,847	147,700,847
2013	51,750,000	94,714,126	146,464,126
2014	54,210,000	91,987,930	146,197,930
2015	57,885,000	89,062,575	146,947,575
2016	58,610,000	86,184,817	144,794,817
2017	65,205,000	82,771,947	147,976,947
2018	67,310,000	79,388,944	146,698,944
2019	70,950,000	75,821,694	146,771,694
2020	74,700,000	72,109,399	146,809,399
2021	76,165,000	68,207,437	144,372,437
2022	82,650,000	64,261,402	146,911,402
2023	89,260,000	59,856,330	149,116,330
2024	91,960,000	55,332,665	147,292,665
2025	96,330,000	50,574,381	146,904,381
2026	101,680,000	45,545,048	147,225,048
2027	104,010,000	40,051,684	144,061,684
2028	115,255,000	34,772,898	150,027,898
2029	118,050,000	29,033,883	147,083,883
2030	124,205,000	23,009,015	147,214,015
2031	123,360,000	16,552,724	139,912,724
2032	138,265,000	10,311,739	148,576,739
2033	145,330,000	3,251,307	148,581,307
	\$ 2,146,205,000	\$ 1,790,720,165	\$ 3,936,925,165

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
Summary of Certain Fees and Charges
(unaudited)

	Bush Intercontinental		Hobby	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2005	2006	2005	2006
Landing Rates (1)	\$3.164	\$3.190	\$2.587	\$2.711
Terminal Space Rentals (2)	\$20.69 - \$92.74	\$19.28 - \$86.56	\$40.73 - \$67.24	\$42.90 - \$73.02
Apron (2)	\$1.652 - \$ 3.339	\$1.759 - \$3.243	\$2.628 - \$3.626	\$2.529 - \$3.722
Parking Rates (maximum per day)				
Economy	\$6.00	\$6.00	\$6.00	\$6.00
Structured	\$12.00	\$13.00	\$12.00	\$13.00
Surface	\$9.00	--	--	--
Short-Term	\$30.00	--	\$30.00	--
Sure Park	\$15.00	\$15.00	--	--

(1) Per 1,000 pounds for landing weight

(2) Range per square foot

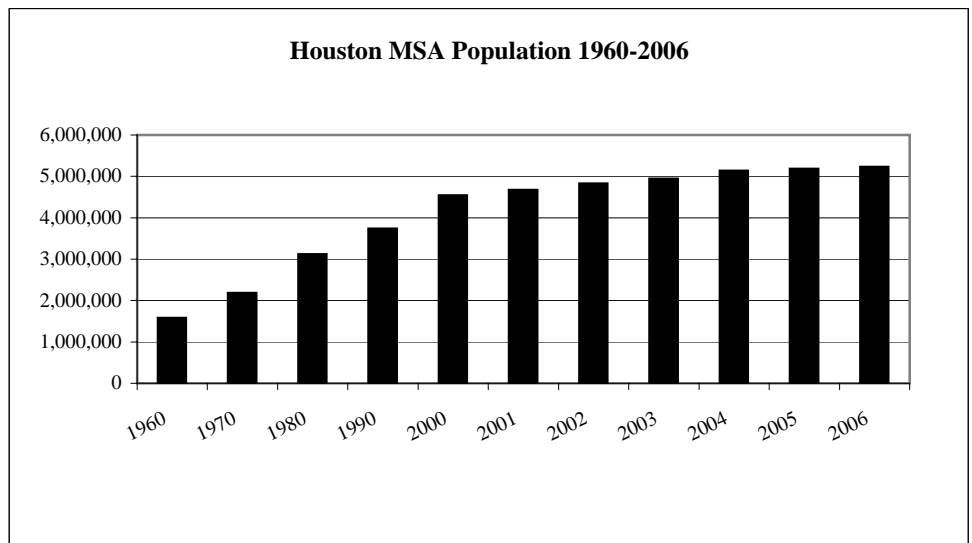
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
Service Area
(unaudited)

The airports service region for the Houston Airport System consists of (1) the ten county Houston-Galveston-Brazoria Metropolitan Statistical Area (Austin, Brazoria, Fort Bend, Chambers, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller counties)--referred to as the Houston MSA, and (2) a large secondary area surrounding the Houston MSA. The limits of this secondary area are generally defined by the range and quality of airline service at other air carrier airports, including Beaumont Jefferson County Airport to the east, Dallas/Fort Worth International Airport and Dallas Love Field to the north, Corpus Christi International Airport to the southwest, and Austin-Bergstrom International Airport and San Antonio International Airport to the west.

Houston, the nation's fourth most populous city, is the largest in the South and Southwest. The Houston MSA ranks 10th in population among the nation's metropolitan areas.

Service Area Population

<u>Year</u>	<u>Houston MSA Population</u>
1960	1,581,117
1970	2,181,315
1980	3,118,080
1990	3,731,131
2000	4,538,022
2001	4,669,571
2002	4,825,964
2003	4,938,556
2004	5,130,500
2005	5,180,000
2006	5,228,844



Source: Greater Houston Partnership

CITY OF HOUSTON, TEXAS
SURETY BOND AND INSURANCE COVERAGE
June 30, 2006
(amounts expressed in thousands)
(unaudited)

Policy Number	Insurer	Term of Policy
15663960	Western Surety Company	1-2-2006/1-2-2008
15663962	Western Surety Company	1-2-2006/1-2-2008
61BSBCS1658	Hartford Casualty Insurance Co.	1-28-2006/1-28-2007
61BSBDV0123	Hartford Casualty Insurance Co.	12-15-2005/12-15-2006
61BSBDS7533	Hartford Casualty Insurance Co.	10-15-2005/10-15-2006
61BSBDJ9648	Hartford Casualty Insurance Co.	3-14-2006/3-14-2007
69239194	Western Surety Company	1-7-2006/1-7-2007
61BSDT7808	Hartford Casualty Insurance Co.	12-9-2005/12-9-2006
6218	Texas Municipal League	8-16-2006/8-16-2007
6218	Texas Municipal League	8-16-2006/8-16-2007
IMO4200061	St. Paul Fire & Marine Insurance Co.	10-20-2005/10-20-2006
61BPEC12302	Hartford Insurance	7-01-2006/7-01-2007
6610	Texas Municipal League	5-15-2006/5-15-2007
D35869475002	Westchester Fire Insurance Co. (Lead)	4-1-2006/4-1-2007
A4224A100	Lexington Insurance Co.	4-1-2006/4-1-2007
GX0002279	Hartford Fire Insurance	4-1-2006/4-1-2007
ESP3109	Essex Insurance Co.	4-1-2006/4-1-2007
MQ2L9L437312015	Liberty Mutual Fire Insurance Co.	4-1-2006/4-1-2007
8897	Texas Municipal League	4-1-2006/4-1-2007
US5525	Commonwealth Insurance Co.	4-1-2006/4-1-2007
A5224A103	Underwriters at Lloyds, London	4-1-2006/4-1-2007
TBD	The Insurance Co. of the West	4-1-2006/4-1-2007
TBD	Allied World Assurance (US)	4-1-2006/4-1-2007
NHD334551	RSUI Indemnity Insurance Co.	4-1-2006/4-1-2007
EAF12155	AXIS Specialty Insurance Co.	4-1-2006/4-1-2007
TBD	Underwriters at Lloyds	4-1-2006/4-1-2007
RMP268170217	Continental Casualty Insurance Co.	4-1-2006/4-1-2007
419656	Lexington Insurance Co.	4-1-2006/4-1-2007
76421761	Federal Insurance Co.	2-18-2006/2-18-2007
QT6605370B377TLC05	St Paul Travelers Insurance Co.	6-26-2006/6-26-2007
6721462	Nat'l Union Fire Insurance Co. of Pittsburgh	5-29-2006/5-29-2007
61BPEAM5075	Hartford Casualty Insurance Co.	10-29-2006/10-29-2007
61BPEAI9468	Hartford Casualty Insurance Co.	2-11-2006/2-11-2007
Various	Western Surety Company	Four year term per bond
GLP0558506102	Great American Assurance Co.	6-19-2006/7-8-2007
PLS 1180312	American Intl. Specialty Lines	10-30-2003/10-30-2008
5234933	Illinois National Insurance Co.	7-1-2006/7-01-2007
68011185	Federal Insurance Co.	7-1-2006/7-01-2007
61UUNTT9450	Hartford Casualty Insurance Co.	9-14-2005/9-14-2006
61UENTT8607	Hartford Casualty Insurance Co.	9-14-2005/9-14-2006
61XHUTT024	Hartford Casualty Insurance Co.	9-14-2005/9-14-2006
61WEGF1105	Hartford Underwriters Insurance	9-14-2005/9-14-2006
61BDDAQ8560	Hartford Casualty Insurance Co.	6-04-2006/6-04-2007

Property at Risk	Type of Coverage	Amount of Coverage (in thousands)
Mayor	Public Official Bond	\$ 50
City Controller	Public Official Bond	\$ 50
Director, Finance & Administration	Public Official Bond	\$ 25
Budget Officer, Finance & Administration	Public Official Bond	\$ 25
Deputy Director, Controller's Office	Public Official Bond	\$ 25
Chief Clerk, Municipal Courts	Public Official Bond	\$ 25
Tax Assessor/Collector, Finance & Administration	Public Official Bond	\$ 25
Pension System Treasurer	Public Official Bond	\$ 250
Houston Housing Finance Corporation	Broad Form Property Insurance	\$ 799
Houston Housing Finance Corporation	Commercial General Liability	\$ 10,000
Houston Area Library Automated Network (HALAN)	Electronic Equipment	\$ 906
Houston Read Commission	Crime Policy - Employee Dishonesty	\$ 375
City of Houston	Automobile Catastrophe	\$ 1,836
City of Houston	Property Insurance	\$ 5,000
City of Houston	Property Insurance	\$ 20,000
City of Houston	Property Insurance	\$ 10,000
City of Houston	Property Insurance	\$ 5,000
City of Houston	Property Insurance	\$ 2,500
City of Houston	Property Insurance	\$ 5,000
City of Houston	Property Insurance	\$ 2,500
City of Houston	Property Insurance	\$ 60,000
City of Houston	Property Insurance	\$ 2,500
City of Houston	Property Insurance	\$ 2,500
City of Houston	Property Insurance	\$ 30,000
City of Houston	Property Insurance	\$ 37,500
City of Houston	Property Insurance	\$ 45,000
City of Houston	Property Insurance	\$ 100,000
City of Houston	Terrorism Insurance	\$ 100,000
City of Houston	Comprehensive Boiler/Other Machinery	\$ 50,000
City of Houston	Electronic Equipment for Library	\$ 820
City of Houston	Public Employee Dishonesty	\$ 2,000
Houston Parks Board	Public Employee Dishonesty	\$ 10
Library Board	Public Employee Dishonesty	\$ 10
Various City of Houston Notaries	Notary Bonds for Various City Notaries	\$ 3
City of Houston	Special Event General Liability	\$ 1,000
City of Houston (Public Works & Engineering)	Environmental Liability	\$ 5,000
Houston Area Water Corp (HAWC)	Directors and Officers Liability	\$ 5,000
Houston Area Water Corp (HAWC)	Directors and Officers Liability	\$ 5,000
Houston Image Group	Commercial General Liability	\$ 1,000
Houston Image Group	Automobile Liability	\$ 1,000
Houston Image Group	Excess Liability	\$ 5,000
Houston Image Group	Workers' Compensation	\$ 1,000
Houston Image Group	Crime	\$ 225

CITY OF HOUSTON, TEXAS
SALARIES OF ELECTED OFFICIALS
June 30, 2006
(unaudited)

<u>Name and Title of Official</u>	<u>Authorized Annual Salary</u>
Bill H. White, Mayor	* \$ 173,296
Annise D. Parker, City Controller	129,394
Antoinette Lawrence, Council member - District A	51,758
Jarvis Johnson, Council member - District B	51,758
Anne U. Clutterbuck, Council member - District C	* 49,795
Ada J. Edwards, Council member - District D	51,758
Addie S. Wiseman, Council member - District E	51,758
Masrur J. Khan, Council member - District F	* 49,158
Pamela Holm, Council member - District G	51,758
Adrian Garcia, Council member - District H	* 21,465
Carol A. Alvarado, Council member - District I	51,758
Peter H. Brown, Council member - At Large Position #1	* 5,200
Susan E. Lovell, Council member - At Large Position #2	51,758
Shelley Sekula-Gibbs, Council member - At Large Position #3	* 49,795
Ronald C. Green - At Large Position #4	* 49,795
Michael Berry, Council member - At Large Position #5	* 49,795

* These Council Members opted to receive a lesser amount than was available under state law.

CITY OF HOUSTON, TEXAS
Schedule of Credits
(unaudited)

Comprehensive Annual Financial Report:

Executive/Administrative Divisions

Annise D. Parker, Controller

Staff:

Madeleine Appel, Director of Administration
Andrea Campos, Administrative Specialist
Chanelle Clark, Administrative Aide
Terence O'Neill, Administrative Assistant to the
Controller
Janice Evans, Director of Communications/
Governmental Relations

Design Oversight and Writing

Financial Reporting

Rudy Garcia, Deputy City Controller

Staff:

Michael Abbott, Assistant City Controller
Jacqueline Brown, Administrative Specialist
Alicia Cai, Assistant City Controller
Monika De Los Santos, Assistant City Controller
Wesley Dormer, Assistant City Controller
Devin Gordon, Assistant City Controller
Rosa Henderson, Assistant City Controller
Carl Medley, Deputy Director - Controllers
Chris Okeagu, Assistant City Controller
Beverly Riggans, Assistant City Controller
Irma Rodriguez, Assistant City Controller
Solomon Tettey, Assistant City Controller
Suong Vu, Assistant City Controller
Dinah Walter, Assistant City Controller
Bonita Wright, Assistant City Controller

Preparation and Coordination

Audit Division

Steve Schoonover, City Auditor

Staff:

Ebenezer Robinson, Assistant City Auditor

Consulting and General Support

Operations and Technical Service Division

Lloyd Waguespack, Deputy City Controller

Staff:

Ella Mamou, Records Supervisor
Leon Phelps, System Accountant

Treasury Division

James Moncur, Deputy City Controller

Staff:

Han Au, Financial Analyst
Sue Bailey, Debt Manager
Shawnell Holman-Smith, Financial Analyst
Claudia Morales, Financial Analyst
Lillie Nobles, Administrative Specialist
Marvin Ramirez, Financial Analyst
Catherine Smith, Financial Analyst

Debt and Investment Management Disclosures

CITY OF HOUSTON, TEXAS
Schedule of Credits - Continued
(unaudited)

Finance and Administration Department

Judy Gray Johnson, Director

Staff:

Hannah Hoang, Accountant Associate
Harold Jackson, Division Manager
Ronald Kissner, Division Manager
Jimmie Locke, Assistant Director
Sherry Mose, Staff Analyst
Dorothy Pappillion, Accountant Associate
Mel Trammell, Assistant Director
Deborah Webb, Accountant Supervisor
Wealthia White, Financial Analyst
Katrina Williams, Accountant Associate

Information Technology

Richard Lewis, Director

Staff:

Singh Bhatia, Systems Consultant
Peter Chao, Systems Consultant

Professional Consultants

Houston Independent School District Printing Services
Connie Cole, Graphic Designer
Charlie Holden, Business Supervisor
Michael McClay, Senior Graphic Designer
Debbie Roberts, Customer Service Coordinator

Deloitte & Touche LLP

SPARK School Park Program

Tom Callins, Callins Photography

Project Management and Design

Independent Auditors

Photos

This schedule by no means gives credit to all of the individuals who have some part in the development and production of this Comprehensive Annual Financial Report. However, we have included the major participants who made the issuance of this document possible.