

City of Houston, Texas

Comprehensive Annual
Financial Report
for the fiscal year ended
June 30, 2002

Sylvia R. Garcia
City Controller



OFFICE OF THE CITY CONTROLLER 99 YEARS OF HOUSTON HISTORY



CITY OF HOUSTON, TEXAS

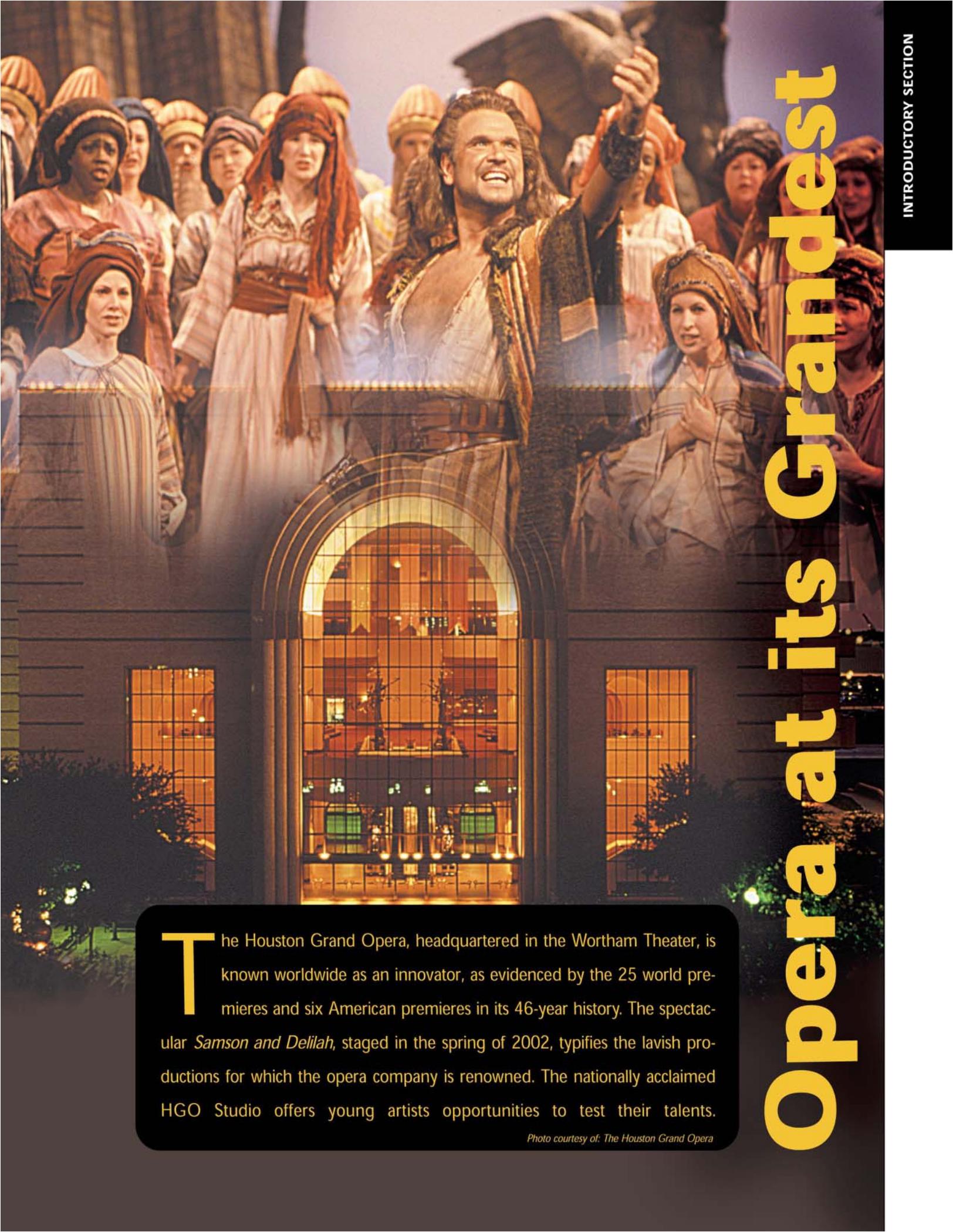
Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002

Prepared by:

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Judy Gray Johnson, CPA, Chief Deputy City Controller

Larry Homan, CPA, Director, Financial Reporting Division



Opera at its Grandest

The Houston Grand Opera, headquartered in the Wortham Theater, is known worldwide as an innovator, as evidenced by the 25 world premieres and six American premieres in its 46-year history. The spectacular *Samson and Delilah*, staged in the spring of 2002, typifies the lavish productions for which the opera company is renowned. The nationally acclaimed HGO Studio offers young artists opportunities to test their talents.

Photo courtesy of The Houston Grand Opera

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF HOUSTON, TEXAS





Office of the City Controller

Houston's City Controller, Sylvia R. Garcia, 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 City Controller superintends the fiscal affairs of the City, which includes conducting audits, managing its investment and debt, preparing financial statements and providing leadership on issues pertaining to the City's financial health. She thus serves as an independently elected "financial voice" on issues of importance to the City.

Now in her third and final term, Controller Garcia continues to build upon the improvements she established in the Office's audit services, customer services, financial reporting, investment management and technology. During the past four years, Controller Garcia emphasized the reorganization of the office for more effective, efficient financial leadership. Now, the Office of the City Controller strives to maintain and enhance the critical services provided by the Office.

Technological upgrades bring office operations a step closer to "paperless" transactions. Innovations this year include the expanded use of Internet-based auctions for municipal bond sales. Meanwhile, the "positive pay" check security system continues to capture phony and altered checks, saving the City, in some cases, hundreds of thousands of dollars.

Enhanced audit functions, including more audit personnel on staff, enabled the Office of the City Controller to complete 27 audits in FY2002. Followup audits have confirmed that the City has implemented many of the recommendations in performance reviews from prior years, resulting in annual savings of more than \$25 million. Challenges for FY2002 included implementation of GASB 34 that are reflected in this annual report.

In fiscal year 2002, the City Controller expanded the use of the office as an economic resource for City government and the city as a whole. The image of the Office of the City Controller as a credible, fiscally prudent operation continues to strengthen, and the view of the City Controller as the city's "financial voice" is now well established.

The preparation of the Comprehensive Annual Financial Report (CAFR) requires a concentrated effort by every division of the City Controller's Office. The Financial Reporting Division is ultimately responsible for the final product. The CAFR will be available on the City Controller's website, found at www.cityofhouston.gov/electedofficials/citycontroller.html



SYLVIA R. GARCIA

HOUSTON CITY CONTROLLER



Houston City Controller Sylvia R. Garcia is a native of the South Texas farming community of Palito Blanco. She attended Texas Woman's University on a scholarship, graduating with a degree in social work, and received her Doctor of Jurisprudence degree from Thurgood Marshall School of Law at Texas Southern University. The eighth of 10 children, she learned at an early age the value of education and hard work. She also learned to be frugal with a dollar, a lesson which serves her well in the Office of the City Controller.

Controller Garcia was sworn in on January 2, 1998 as Controller for the City of Houston. She was reelected, for the second time without opposition, to a third term on November 6, 2001. She is the second-highest City elected official and serves as the City's Chief Financial Officer. Prior to her election in November 1997, Controller Garcia served as the appointed Director and Presiding Judge of the Houston Municipal Court System. As Presiding Judge, she was responsible for a multi-million-dollar budget, coordinated a staff of 50 judges, and established the operation and administration policies of the courts. She enjoys the distinction of having served as Presiding Judge for an unprecedented five terms under two mayors. Controller Garcia believes that maintaining the City's fiscal soundness is serious business and is committed to ensuring that City government operates cost-effectively.

Active in the Houston community, the Controller has served on more than 25 community boards and commissions, including the San Jacinto Girl Scouts, the Houston Hispanic Forum, the American Leadership Forum, the Texas Southern University Foundation and the Institute of Hispanic Culture.

Despite her duties as City Controller, Ms. Garcia has made the time and commitment to be the chairperson or honorary chairperson of numerous charity functions. These include the "1998 Girls Inc. Charity Gala" and the kick-off for "America Walks for Strong Women."

Controller Garcia has been honored by community leaders and the media. In 2001 she was named "Texas Woman to Watch" by the Business and Professional Women of Texas. She has also been named "Humanitarian of the Year" by the National Conference of Communities and Justice and chosen as one of "Houston's 25 Power People" by Inside Houston magazine. The Houston Press also named her "Politician of the Year."

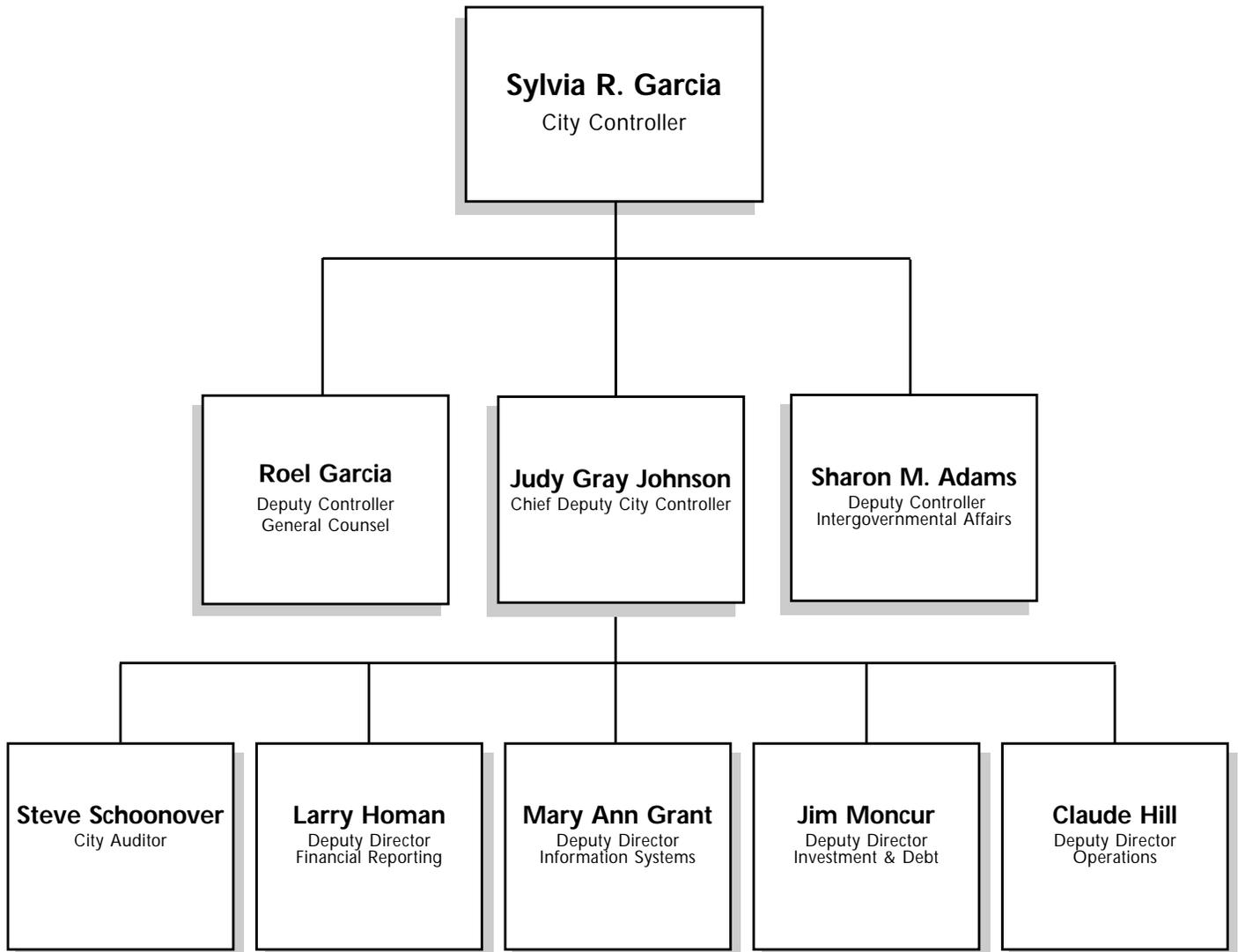
In 2001 Controller Garcia received the Distinguished Local Government Leadership Award from the National Association of Government Accountants (AGA). Other recent honors include the receipt of the Texas Woman's University Board of Regents Woman of Distinction Award, the Hispanic Scouting Distinguished Citizen Award from the Sam Houston Area Council/Boy Scouts of America and the Board Award from the San Jacinto Girl Scouts.

Before joining the City, Controller Garcia worked as an attorney for the Gulf Coast Legal Foundation and served on the City's first Appraisal Review Board. She also served as administrative law judge for the Equal Employment Opportunity Commission and headed her own law firm.



City of Houston

The Office of the City Controller





Elected Officials City of Houston, Texas



Mayor

Lee P. Brown

City Controller

Sylvia R. Garcia

Council Members

Gordon Quan, **Mayor Pro-Tem, Position 2**

Bert Keller, **Vice Mayor Pro-Tem, District G**

Annise Parker, **Position 1** Shelley Sekula-Gibbs, MD, **Position 3**

Michael Berry, **Position 4** Carroll G. Robinson, **Position 5**

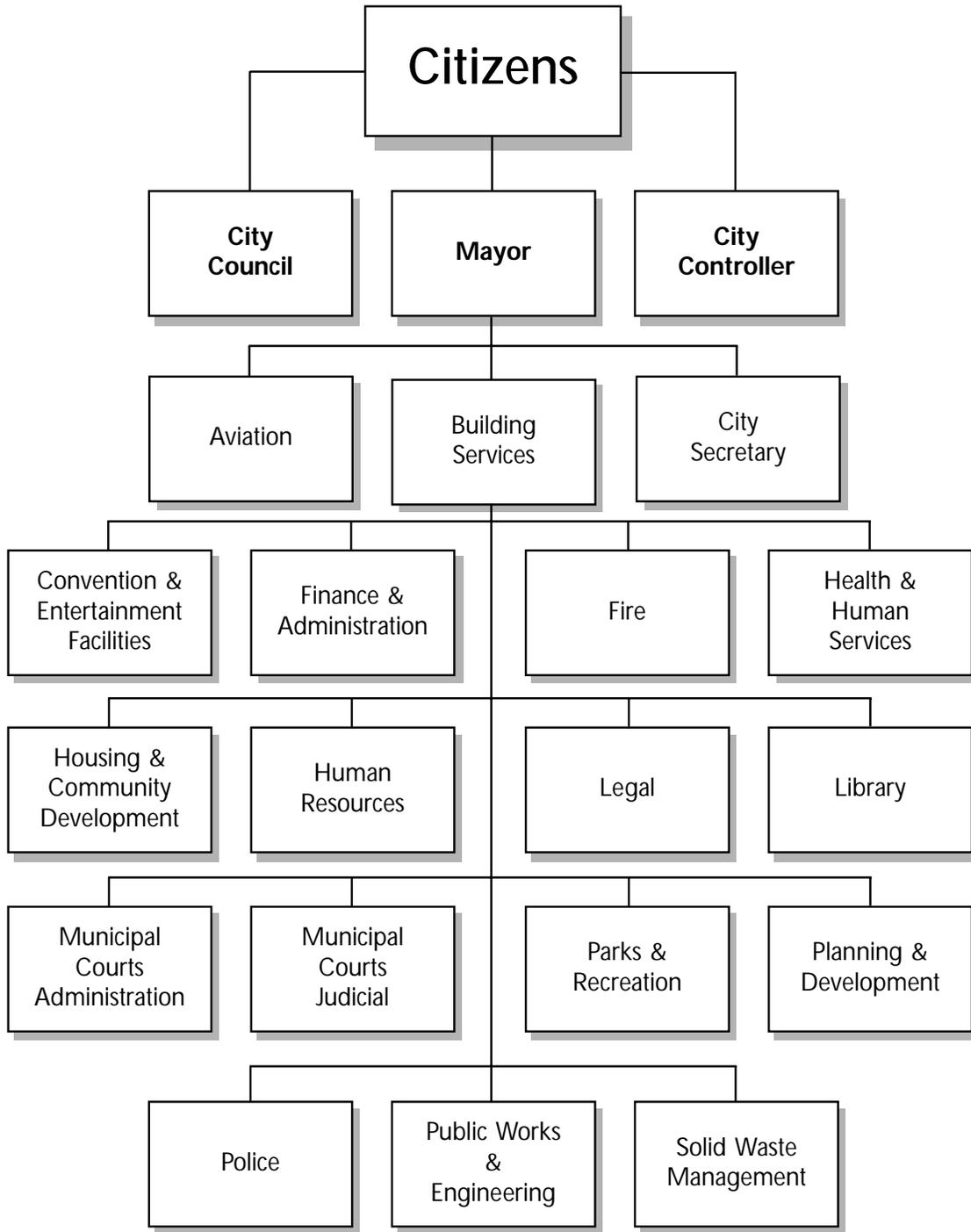
Bruce Tatro, **District A** Carol Galloway, **District B** Mark Goldberg, **District C**

Ada Edwards, **District D** Addie Wiseman, **District E** Mark Ellis, **District F**

Gabriel Vasquez, **District H** Carol Alvarado, **District I**



Organization Chart City Government



CITY OF HOUSTON, TEXAS





OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

December 17, 2002

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, 2002, including the independent auditors' report. The CAFR was prepared by the City Controller's Office and satisfies my responsibilities under state law. This report is published to provide the Mayor and City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of principal City officials, the City's organizational charts for the Office of the City Controller and for Houston's city government, and a copy of the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the City's 2001 CAFR. The financial section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditors' 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 Financial Section described above is prepared in accordance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The Reporting Entity and Its Services

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 GASB.

The City provides a full range of municipal government services to over 1.9 million residents and to an estimated 21 million conventioners and other visitors annually. Municipal services provided include police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection

and disposal, sanitary code enforcement, health and human services, building and housing code enforcement, construction and maintenance of streets and certain bridges, traffic signal installation and maintenance, parks and recreation, library, cultural and convention activities, and operation of three municipal airports, including George Bush Intercontinental, William P. Hobby, 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 administer the public hospitals and public schools within the City.

Throughout the City

Exciting changes are occurring throughout the Houston area. Downtown Houston is alive with major revitalization efforts. Bayou Place, a 155,000 square-foot retail and entertainment complex including a multi-plex cinema, a concert performance hall, trendy restaurants and other venues, is alive and thriving on evenings and weekends. Bayou Place Phase II, a 40,000+ square-foot expansion now under construction, is scheduled for completion in 2004. The Hobby Center for the Performing Arts, the home of Theater Under the Stars and the Humphreys School of Musical Theatre opened in May 2002. The \$75 million facility includes two stages with seating capacity for 2,650 and 500, respectively.

Across the street in City Hall, the Greater Houston Convention and Visitors Bureau operates a visually appealing Visitor Center. It features area guides and brochures, video kiosks, a theater, and state of the art touch screen computers to guide visitors through accommodations, dining, and other attractions in the city and surrounding area.

Houston will greatly increase its capacity to host large conventions with the completion of the new Hilton convention center headquarters hotel and expanded George R. Brown Convention Center. Both the hotel, with 1,200 rooms and 70,000 square feet of meeting space including two ballrooms, and the convention center expansion are currently underway and designed with expected openings in 2003. The most exciting news, however, is the Instrumentation Systems and Automation Society's plan to hold its annual exposition, expected to draw 35,000 in international attendance, in the new convention center and hotel complex in 2006.

One of the most eagerly anticipated downtown undertakings is Cotswold 2000, a landscape, streetscape, and parking beautification project nearing completion that will add new streetlights and fountains through downtown Houston. The project is expected to dramatically improve the aesthetics and the pedestrian character over 90 city blocks, including Market Square. Cotswold 2000 planners anticipate that upon completion at the end of 2003, the project will become a focal point for entertainment and commerce, making downtown Houston a more beautiful place to live and work.

The City of Houston is embarking on another beautification project involving Buffalo Bayou. Traversing the city limits and downtown area, the Bayou will become a scenic link for the city. Beautification efforts include a master plan and study as well as landscaping and the placement of public art, decorative lighting, and park benches as well as other amenities.

Houston is home to first-class professional sports venues. Minute Maid Park, the home of the Houston Astros baseball team, opened in 2000. The \$250 million stadium officially seats 40,950

and attracted over 3 million fans in the 2000 season, more than 2.9 million fans in the 2001 season, and 2.5 million in the 2002 season. Additionally, the new downtown Arena, future home of the Houston Rockets NBA basketball team and the Houston Comets WNBA women's team, is under construction near the Brown Convention Center, with completion in 2003. The Reliant Stadium opened at the start of the 2002 professional football season and serves as the home to the new Houston Texans NFL team.

This stadium is also the new home of the Houston Livestock Show and Rodeo. Additionally, Houston will host the 2004 Super Bowl and the 2004 All Star Game.

Houston's expanding mass transit system continues to meet the needs of this thriving metropolis. The Metropolitan Transit Authority of Harris County (METRO) serves 1,281 square miles and operates more than 1,400 buses. METRO operates five HOV lanes, the largest barrier-separated system in the world. Looking ahead at mobility issues in the future, METRO has adopted the 2025 Transit System Plan for Mobility, which approves future implementation of new bus services and facilities and studies for advanced high capacity transit on nine regional corridors. METRO's downtown trolleys serve to reduce lunchtime traffic activity. In March 2001, METRO broke ground on a light rail system for the 7.5-mile Downtown-to-Reliant Park Corridor. The \$272 million light rail system -- which will traverse the Downtown employment center, colleges and universities, the Theater District, the Texas Medical Center, Hermann Park and the Zoo, the Museum District and Reliant Park-- will be complete by the year 2004. Powered electrically by overhead wires, the cars can reach speeds up to 66 mph if the line is extended. The system will operate two car trains each able to carry over 200 people. In addition to METRO's downtown revitalization efforts, its Millennium Mobility Plan also includes more than \$1 billion for street construction throughout the region for the next 10 years, \$1 billion for upgraded bus service, and more than \$144 million in transit access improvements to the reconstructed Katy Freeway.

Houston's ongoing downtown revitalization effort includes signature entertainment and dining venues. A new aquatic entertainment and dining complex will be opening in downtown Houston in the future. Landry's Restaurants recently has under construction the redevelopment of two city-owned downtown landmarks into a unique five-acre entertainment and dining complex. Fire Station Number 1 and the historic Central Water Works Plant will be transformed into a public aquarium with 200 species of domestic and international marine life, a 400-seat seafood restaurant, a 6,000 square-foot ballroom, a casual café, a lounge, a plaza with dancing fountains, and many amusements including an aquatic 90-foot Ferris wheel and a gas powered train.

The City's Museum District offers arts and culture enthusiasts many extraordinary opportunities for discovery. The Museum of Fine Arts, Houston (MFAH) is the 6th largest art museum in the nation in terms of exhibition space. With over half a million in attendance annually, the Children's Museum boasts the highest attendance for a youth museum of its size in the country. The Holocaust Museum Houston Education Center and Memorial, offering free admission and open seven days a week, offers exhibitions, galleries, a library, and the Eric Alexander Garden of Hope. Founded in 1909, the Houston Museum of Natural Science ranks as the fourth most highly attended museum in the nation and the most highly attended attraction in Texas with over 2 million visitors annually. The Museum of Contemporary Art has also enhanced Houston's museum district since 1948. The popular Museum of Health and Medical Science, the newest addition to Houston's vibrant and engaging Museum District, currently serves over 150,000 visitors annually.

Houston is a center for performing arts, with a 17-block theater district. Second only in seating area to New York's Broadway, the Theater District attracts over two million people annually. Located in Downtown Houston, the district is home to the Tony Award-winning Alley Theatre and seven other first class theaters for the performing arts. The Houston Symphony, one of the nation's oldest performing arts ensembles, recently celebrated its 85th season. The Symphony continues to perform in over 200 concerts a year, traveling around the U.S. and abroad. Houston Ballet is the nation's fifth largest dance company while the Houston Grand Opera is the nation's fifth largest opera company. The opening of the Hobby Center for the Performing Arts in Fall 2002 further enhances the already impressive Theater District in downtown Houston.

The aerospace industry continues to be a large influence in the area. NASA/Johnson Space Center (NASA/JSC) and its contractors, including United Space Alliance, Lockheed Martin, and Boeing, continue to contribute to Houston in many ways. Receiving almost one third of NASA's money, the Johnson Space Center contributes approximately \$2 billion to the local area economy. NASA/JSC research and development grants provide \$18.6 million to universities located within Houston. Also, NASA/JSC is constantly developing new technologies, which frequently evolve into spin-off products, and medical advances such as nanotechnology, plasma propulsion, and a new drug delivery system.

Space Center Houston, the official visitor's center for NASA/JSC, continues to be a popular attraction, especially with the Johnson Space Center's role in oversight of the creation of the international space station.

The fledgling cruise industry is expected to grow with the planned construction of the Bayport Terminal at the Port of Houston, which will include a cruise terminal on the easternmost portion of the development. Currently, the cruise industry generates approximately \$40 million in revenue annually for the area. With the large and expanding airport system, and easy access to both the Caribbean and Mexico, Houston is a prime location for growth of the travel and tourism industry.

Financial Information

Accounting System and Budgetary Control

The Mayor serves as the Chief Executive 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 nine district members and five at-large members. The Mayor, City Controller, and Council Members are limited to three two-year elected terms.

The accounting system of the City is organized and operated on the basis of funds, each of which is in a separate set of self-balancing accounts which comprise each fund's assets, liabilities, fund balance, revenues and expenses. The accounting and financial reporting policies of the City included in this report conform to GAAP and reporting standards as promulgated by GASB, the American Institute of Certified Public Accountants (AICPA) and other appropriate sources. The financial statements of the General, Debt Service, Capital Projects, Grant Fund and other governmental funds are prepared on the modified accrual basis of accounting, whereby revenues are recorded when they become both measurable and available to finance expenditures of the current period. Expenditures are generally recorded when goods or services are received and actual liabilities are incurred and become payable with expendable available financial resources. The financial statements of the Enterprise, Internal Service, and the Fiduciary Pension Trust and

Agency Funds are prepared on the accrual basis of accounting whereby revenues/additions are recorded at the time they are earned and expenses/deductions are recorded when liabilities are incurred. Encumbrance accounting, under which purchase orders, contracts, approved requisitions and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Outstanding encumbrances lapse at year-end. Open encumbrances are then reestablished in the succeeding fiscal year against that fiscal year's appropriations. Encumbrances do not constitute expenditures or liabilities.

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 the reliability of financial records for preparing financial statements and maintaining accountability for 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.

As a part of its internal control structure 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, and Special Revenue 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. Also, based upon the Mayor's recommendations, City Council adopts an annual budget for maintenance and operating expenses, excluding depreciation, debt service, and other capital costs of the proprietary funds. The City Council also appropriates available resources to authorize expenditures pursuant to those budgets. The City does not budget Capital Projects and other expenditures annually. Instead, City Council authorizes these expenditures through individual appropriation ordinances. No City expenditures may be made without a duly adopted ordinance. City Council can legally appropriate only those amounts of money that the City Controller has previously certified.

Although the legal level of budgetary control is 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, 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.

Award

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement* for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents

conform to program standards. The CAFR 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 our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

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 of the time and effort in preparation of this report lies in the Financial Reporting Division, they were supported by the other divisions of the Office: Executive, Administration, Information Systems, Operations, Investment and Debt Management, and Audit. I would like to express my appreciation to all the staff of the City Controller's Office, and to the staff of the Finance and Administration Department, Aviation Department, Convention and Entertainment, and Public Works and Engineering Department 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 our 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. The cover photograph is courtesy of the Greater Houston Partnership. KPMG LLP was not only our independent auditor, but also served as an invaluable source of information and ideas for improving the way that City finances are reported. Finally, we 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 during my tenure as City Controller is greatly appreciated.

Special thanks for the production of this year's CAFR are gratefully given to the City of Houston's Parks and Recreation Department. The Department's Office of Marketing and Special Events provided the CAFR design, printing assistance and the photography featured throughout the report. I appreciate the many hours Parks' staff devoted to this effort, which helps to showcase the beauty of our diverse, international, and very green City. We are justly proud and hope that this CAFR, in offering a glimpse of this remarkable place, will encourage readers to want to see more.

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, Suite 800 Houston, Texas 77002.

Sylvia R. Garcia
City Controller

Sources:

ACCRA

Houston Astros Baseball

Census 2000

Federal Reserve Bank of Dallas

Greater Houston Convention and Visitors Bureau

Greater Houston Partnership

Houston METRO Transit Authority

Houston Texans/HOK

University of Houston Center for Public Policy

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, 2001

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.



Smith Brewer
President

Jeffrey L. Essler
Executive Director