

One hundred
languages,
one voice



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, 2003, 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'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 1% 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 discretely presented component unit or any business-type discretely presented component unit, except for the Houston Convention Center Hotel Corporation, which represents 9% and 100%, respectively, of the business-type discretely presented component units assets and revenues. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements noted above as being audited by other auditors were audited in accordance with generally accepted auditing standards, but neither the financial statements referred to above as being audited by other auditors nor the financial statements of the Houston Convention Center Hotel Corporation were audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, discretely presented component units, each major fund, and aggregate remaining fund information of the City of Houston, Texas, as of June 30, 2003, 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.

As noted in Note 1 to the basic financial statements, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 39, "Determining Whether Certain Organizations are Component Units" and GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences" for the year ended June 30, 2003.

The Management's Discussion and Analysis, Schedule of Budgeted and Actual Revenues and Expenditures of the General Operating Fund and Pension System supplementary information is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the City'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 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'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 23, 2003

City of Houston, Texas
Management's Discussion and Analysis
(Unaudited)

June 30, 2003

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, 2003. Please read in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2002. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Houston exceeded its liabilities at the close of the most recent fiscal year by \$5.4 billion. Unrestricted assets are a deficit of \$257 million. This indicates that the City is financing long-term liabilities as they come due rather than when they are incurred.
- The government's total net assets decreased by \$63 million during the year.
- The City of Houston's total expenses were \$2.709 billion. Program revenues of \$1.187 billion reduced the net cost of the City's functions to be financed from the City's general revenues to \$1.522 billion.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Houston's basic financial statements. The City of Houston's basic financial statements comprise 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 two 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish 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, 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, financial information for the component units is reported separately from the financial information presented for the primary government itself. The Houston Area Water Corporation, although also legally separate, functions for all practical purposes as a department of the City of Houston, and therefore has 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 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.

The City of Houston maintains nine individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances 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 provided in the column labeled nonmajor governmental funds.

Proprietary funds. The City of Houston maintains two different types of proprietary funds. 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, water and sewer system, and the convention and entertainment facilities. The City also includes the Houston Area Water Corporation as a 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, water and sewer 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 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 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 the City of Houston's progress in funding its obligation to provide pension benefits to its employees.

Restatements. As discussed in Note 2(C) to the financial statements, the City restated beginning net assets at a government-wide level and certain funds at a fund level for various items discovered during the closing of the June 30, 2003 financial statements.

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, assets exceed liabilities by \$5.4 billion at the close of the most recent fiscal year.

Net Assets						
June 30, 2003						
(With comparative totals for 2002)						
(in millions)						
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 789	\$ 809	\$ 2,665	\$ 2,615	\$ 3,454	\$ 3,424
Capital assets	5,430	5,230	7,072	6,269	12,502	11,499
Total assets	<u>6,219</u>	<u>6,039</u>	<u>9,737</u>	<u>8,884</u>	<u>15,956</u>	<u>14,923</u>
Long-term liabilities	2,076	1,923	7,176	6,182	9,252	8,105
Other liabilities	776	770	557	614	1,333	1,384
Total liabilities	<u>2,852</u>	<u>2,693</u>	<u>7,733</u>	<u>6,796</u>	<u>10,585</u>	<u>9,489</u>
Net assets						
Invested in capital assets, net of related debt	3,354	3,327	1,069	1,129	4,423	4,456
Restricted	198	211	1,006	1,207	1,204	1,418
Unrestricted (deficit)	(185)	(192)	(71)	(248)	(256)	(440)
Total net assets	<u>\$ 3,367</u>	<u>\$ 3,346</u>	<u>\$ 2,004</u>	<u>\$ 2,088</u>	<u>\$ 5,371</u>	<u>\$ 5,434</u>

By far the largest portion of the City of Houston's net assets (83%) 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 (22%) represents resources that are subject to external restrictions on how they may be used. The deficit balance of unrestricted net assets (\$256 million) indicates that the government elects to pay for certain long-term obligations as they come due with current financial resources.

At the end of the current fiscal year, the City of Houston is not able to report positive balances in all three categories for net assets.

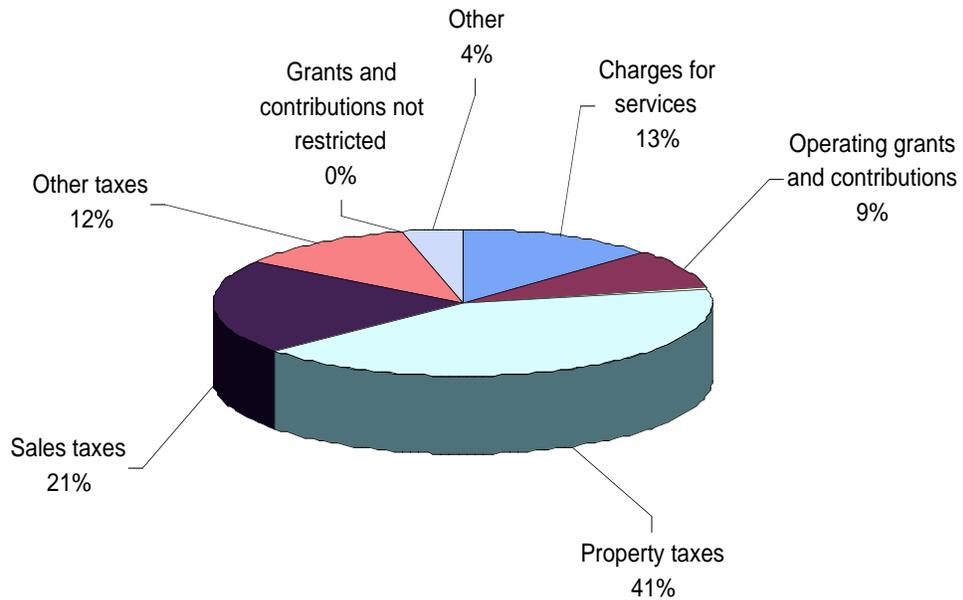
Change in Net Assets						
June 30, 2003						
(With comparative totals for 2002)						
(in millions)						
	Governmental		Business-type		Total	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Program Revenues:						
Charges for services	\$ 198	\$ 189	\$ 797	\$ 786	\$ 995	\$ 975
Operating grants and contributions	137	148	-	-	137	148
Capital grants and contributions	6	27	48	69	54	96
General revenues:						
Property taxes	640	627	-	-	640	627
Sales taxes	322	342	-	-	322	342
Other taxes	184	199	43	43	227	242
Other	59	49	102	139	161	188
Total revenues	<u>1,546</u>	<u>1,581</u>	<u>990</u>	<u>1,037</u>	<u>2,536</u>	<u>2,618</u>
Expenses:						
General government	150	166	-	-	150	166
Public safety	818	774	-	-	818	774
Public works	238	203	-	-	238	203
Health	100	108	-	-	100	108
Housing and community development	48	57	-	-	48	57
Parks and recreation	85	84	-	-	85	84
Library	38	40	-	-	38	40
Retiree benefits	21	18	-	-	21	18
Interest on Long-term Debt	98	95	-	-	98	95
Depreciation and amortization	120	109	-	-	120	109
Airport System	-	-	266	248	266	248
Convention & Entertainment Facilities	-	-	77	87	77	87
Water & Sewer	-	-	649	638	649	638
Total expenses	<u>1,716</u>	<u>1,654</u>	<u>992</u>	<u>973</u>	<u>2,708</u>	<u>2,627</u>
Change in net assets before contributions, special items and transfers	(170)	(73)	(2)	64	(172)	(9)
Contributions	102	1	5	-	107	1
Special items	3	4	(1)	(10)	2	(6)
Transfers	86	100	(86)	(100)	0	-
Change in net assets	21	32	(84)	(46)	(63)	(14)
Net assets July 1, (As Restated)	3,346	3,314	2,088	2,134	5,434	5,448
Net assets June 30,	<u>\$ 3,367</u>	<u>\$ 3,346</u>	<u>\$ 2,004</u>	<u>\$ 2,088</u>	<u>\$ 5,371</u>	<u>\$ 5,434</u>

There was a decrease of \$84 million in the net assets reported in connection with the City of Houston's business-type activities. Most of this decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues during the current fiscal year.

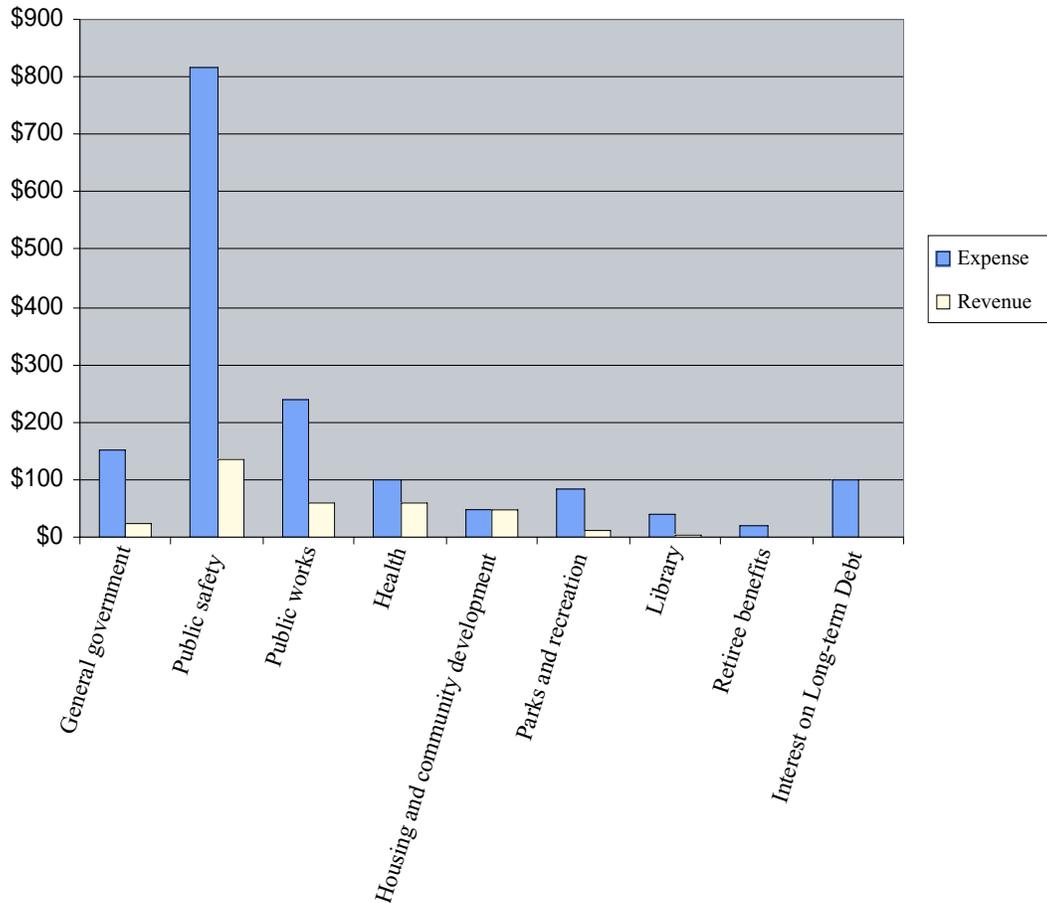
Governmental activities. Governmental activities increased the City of Houston’s net assets by \$21 million. Key elements of this increase are as follows:

- While the City’s property tax rate was held constant at \$.655 per \$100 assessed value, property tax revenue increased by \$13 million because of the City’s rising property values and continued effort in the collection of delinquent taxes.
- Sales tax revenue decreased 6 percent from \$342 million to \$322 million.
- Franchise tax revenue decreased 9 percent from \$175 million to \$161 million.
- For the most part, the largest increases in expenses were in the areas of public safety and public works - \$80 million.
- Donations of infrastructure assets were \$102 million.

Revenue by Source - Governmental Activities



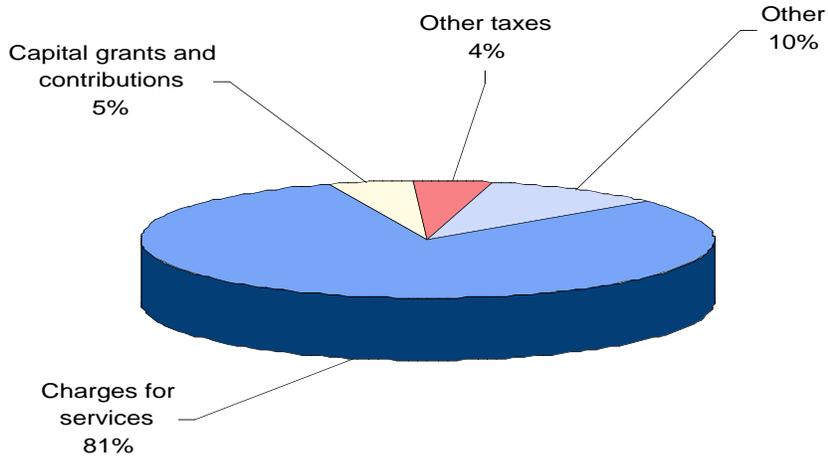
**Program Revenue and Expense
Governmental**



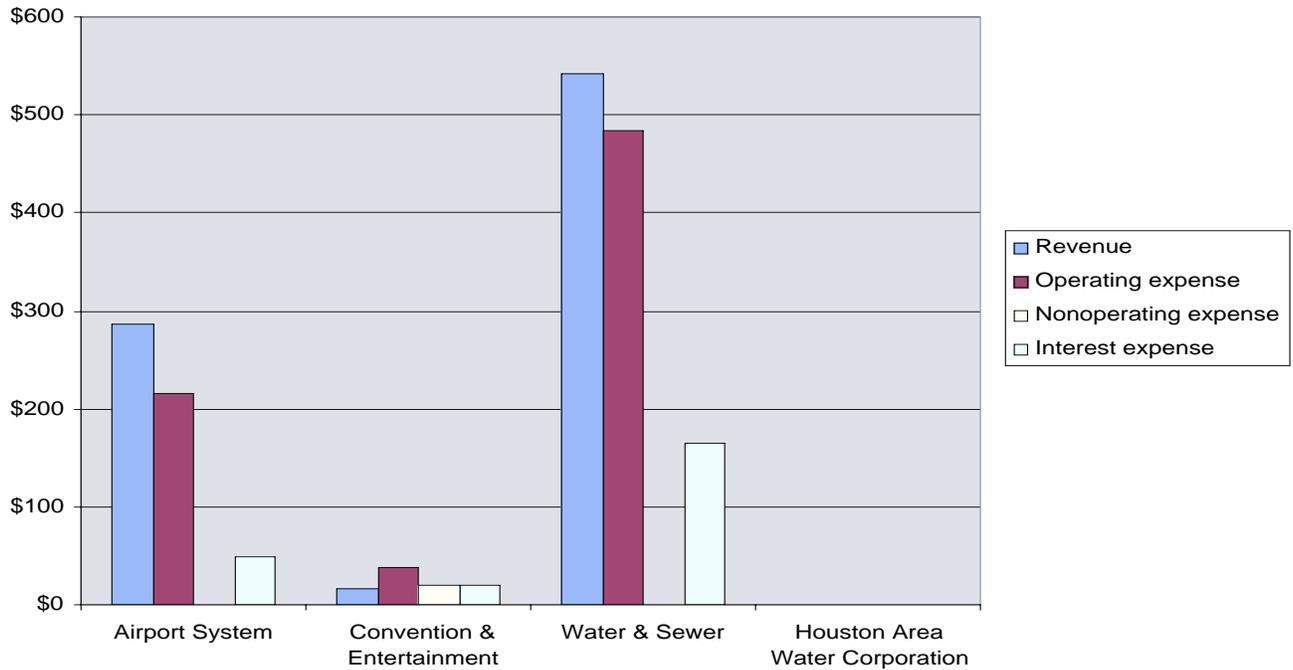
Business-type activities. Business-type activities decreased the City of Houston’s net assets by \$84 million. Key elements of this decrease are as follows:

- Airport systems operating expenses were up by 6%, from \$203 million to \$216 million. Charges for services at these facilities were up by 5.3%, from \$228 million to \$241 million. Contributions decreased by 9.8%, from \$51 million to \$46 million.
- Convention & Entertainment operating expenses were up by 8.8%, from \$34 million to \$38 million. Charges for services at these facilities were up by 9.6%, from \$15.5 million to \$17 million.
- Water & Sewer operating expenses were up 2% from \$474 million to \$484 million, while the operating revenues were down. Contributions declined by 71%, from \$27 million to \$7.8 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. 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 \$370 million, an increase of \$20 million in comparison with the prior year. Approximately 39 percent of this total amount (\$169 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 (\$66 million), (2) to pay debt service (\$103 million), or (3) a variety of other restricted purposes (\$32 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 \$105 million, while the total fund balance reached \$136 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 8.5 percent of total general fund expenditures, while total fund balance represents 11 percent of that same amount.

The fund balance of the City's general fund increased by \$20 million during the current fiscal year. Key factors in this growth are as follows:

- \$8 million increase in total revenues
- \$25 million increase in transfers from other funds
- \$21 million decrease in proceeds for issuance of debt
- \$23 million increase in transfers to other funds
- \$26 million decrease in expenditures

The debt service fund has a total fund balance of \$100 million, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current fiscal year in the debt service fund was \$2.6 million. Interest expenditures increased by \$890 thousand.

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 \$4.7 million.

The capital projects fund has a fund balance of \$57 million, which is used for the acquisition and/or construction of capital facilities by the City, except those financed by Enterprise Funds. The net decrease in fund balance during the current fiscal year was \$5.8 million.

Proprietary 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 \$33.3 million for the Water and Sewer System, \$4 million for Airport System, and deficits of \$108 million for Convention and Entertainment and \$230 thousand for the Houston Area Water Corporation. The total increase in net assets for the Airport System fund and Convention and Entertainment were \$56.2 million and \$5.2 million, respectively. The Water & Sewer System and the Houston Area Water Corporation experienced decreases of \$145.2 million and \$153 thousand, 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 below budget by \$63.7 million, with the largest deficit occurring in sales taxes, which were \$38.5 million below budget. This led to budget reductions for all City departments, including:

- \$11.8 million decrease for public safety
- \$6.2 million decrease for public works
- \$2.8 million decrease for health, parks and recreation and library
- \$1.6 million decrease for other current expenditures (misc. support services and claims and judgments)
- \$3 million increase in transfers out

Transfers approved by City Council but not originally budgeted were \$30.3 million from various funds. This included the Disaster Recovery fund and the Water and Sewer Fund, which funded the balance of the shortfall. Actual expenditures and other financing uses were less than the revised budget by \$9.2 million. This resulted in an ending undesignated fund balance on a budgetary basis of \$83 million. In addition, City Council approved a \$15 million transfer from the Water and Sewer System fund to increase the Rainy Day Fund from \$5 million to \$20 million.

Capital Asset and Debt Administration

Capital assets. The City of Houston's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$12.5 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 investment in capital assets for the current fiscal year was 8.6 percent (a 3.7 percent increase for governmental activities and a 12.7 percent increase for business-type activities). For details relating to the City's capital assets refer to Note 6, Capital Assets, pages 57 - 58.

Capital Assets

June 30, 2003

(With comparative totals for 2002)

(net of depreciation in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Land	\$ 340	\$ 333	\$ 329	\$ 283	\$ 669	\$ 616
Buildings, improvements and equipment	388	362	1,657	1,346	2,045	1,708
Plants, lines and rights	-	-	3,369	3,040	3,369	3,040
Construction in progress	461	275	1,716	1,600	2,177	1,875
Infrastructure Assets	4,241	4,260	-	-	4,241	4,260
Total	\$ 5,430	\$ 5,230	\$ 7,071	\$ 6,269	\$ 12,501	\$ 11,499

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

- Governmental and Business-type activities purchased \$54 million worth of land.
- Governmental activities purchased or completed construction on capital assets of \$35.9 million.
- Governmental activities balance reflects a \$98 million contribution of rights-of-way.
- Governmental activities restated beginning balance of capital asset by approximately \$1.243 billion (the value of right-of-way and contributed assets)
- Business-type activities purchased or completed construction on capital assets of \$602 million.

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

Long-term Debt. At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of \$9.3 billion. Of this amount, \$2 billion comprises debt backed by the full faith and credit of the government and \$26 million is debt related to HUD housing loans for which the government is liable in the event of default by the borrowers. The remainder of the City of Houston's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds and long-term contracts).

**Outstanding Debt
June 30, 2003**

(With comparative totals for 2002)
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds and commercial paper	\$ 2,025	\$ 1,935	\$ -	\$ -	\$ 2,025	\$ 1,935
Capital lease paper	53	-	-	-	53	-
Other borrowings	-	-	6,942	5,967	6,942	5,967
Total	26	15	262	241	288	256
	<u>\$ 2,104</u>	<u>\$ 1,950</u>	<u>\$ 7,204</u>	<u>\$ 6,208</u>	<u>\$ 9,308</u>	<u>\$ 8,158</u>

The City's total debt increased by \$1.12 billion (13.4 percent) during the current fiscal year.

During the current fiscal year, the City refinanced some of its existing debt and issued new debt to take advantage of lower interest rates. Issues include:

- \$247 million of public improvement bonds to refund commercial paper and refinance existing debt for savings.
- \$724 million of airport revenue bonds to refund all outstanding airport commercial paper and finance certain improvements of the City's Airport System,
- \$41 million of water & sewer bonds and notes,
- \$310 million of water & sewer bonds to refund 1992 A, B & C bonds

More detailed information about the City's long-term debt is presented in Note 8 to the financial statements.

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	A+	A3	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 percent of its total assessed valuation. The current debt limitation for the City of Houston is \$11.3 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 FY04 budget are as follows:

- Kept the property tax rate the same – 65.5 cents per \$100 of valuation,
- Kept the water and sewer rate the same,
- Discontinued the practice of transferring surplus water and sewer funds for general purposes,
- Limited hiring of staff to emergency, public safety and direct service staff only,
- Reduced civilian staff, increased overtime and hired firefighters to maintain the four-per-apparatus level,
- Implemented an involuntary reduction in force program.

CITY OF HOUSTON, TEXAS

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

June 30, 2003
(amounts expressed in thousands)

				Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental	Business-type
Assets					
Current Assets					
Cash	\$ -	\$ -	\$ -	\$ 29,536	\$ 4,100
Equity in pooled cash and investments	363,050	106,000	469,050	23,515	13,041
Receivables, net of allowances					
Accounts receivable, net	112,327	78,648	190,975	1,588	3,733
Hotel occupancy tax receivable	-	10,845	10,845	-	-
Property taxes receivable, net	79,527	-	79,527	10,386	-
Sales taxes receivable	55,715	-	55,715	-	-
Mixed beverage taxes receivable	1,915	-	1,915	-	-
Franchise taxes receivable	36,552	-	36,552	-	-
Special assessments receivable	37,680	-	37,680	5	-
Accrued interest and other	-	-	-	28	63
Internal balances	2,001	(2,001)	-	-	-
Amounts due from primary government	-	-	-	60	-
Due from other governments	13,182	-	13,182	-	-
Inventory	22,346	10,259	32,605	-	-
Prepaid items	1,642	1,163	2,805	27	2,323
Total current assets	<u>725,937</u>	<u>204,914</u>	<u>930,851</u>	<u>65,145</u>	<u>23,260</u>
Restricted Assets					
Restricted cash and cash equivalents	-	-	-	-	185
Amounts due from component units	-	315,493	315,493	-	-
Investments	-	1,869,910	1,869,910	31,486	2,444
Assessments receivable	-	101	101	267	-
Accrued interest receivable	-	-	-	-	528
Due from other governments - grants	-	3,421	3,421	-	-
Amounts held by other governments	-	8,268	8,268	-	133,729
Receivable and deposits	-	-	-	-	3,892
Deferred charges for issuance cost	5,431	41,069	46,500	3,269	-
Total restricted assets	<u>5,431</u>	<u>2,238,262</u>	<u>2,243,693</u>	<u>35,022</u>	<u>140,778</u>
Other assets					
Water rights, net of amortization	-	207,315	207,315	-	-
Other long-term receivables	-	870	870	3,022	8,982
Garage rights	-	13,144	13,144	-	-
Net pension asset	57,212	-	57,212	-	-
Total other assets	<u>57,212</u>	<u>221,329</u>	<u>278,541</u>	<u>3,022</u>	<u>8,982</u>
Capital Assets					
Land	340,289	328,892	669,181	22,964	11,488
Buildings, improvements and equipment	883,716	2,621,419	3,505,135	3,747	19,559
Plants, lines and rights	-	6,360,112	6,360,112	-	-
Construction in progress	460,640	1,715,534	2,176,174	2	188,922
Infrastructure Assets	5,945,443	-	5,945,443	-	-
Total capital assets	<u>7,630,088</u>	<u>11,025,957</u>	<u>18,656,045</u>	<u>26,713</u>	<u>219,969</u>
Less accumulated depreciation	<u>(2,200,322)</u>	<u>(3,954,406)</u>	<u>(6,154,728)</u>	<u>(669)</u>	<u>(6)</u>
Net capital assets	<u>5,429,766</u>	<u>7,071,551</u>	<u>12,501,317</u>	<u>26,044</u>	<u>219,963</u>
Total noncurrent assets	<u>5,492,409</u>	<u>9,531,142</u>	<u>15,023,551</u>	<u>64,088</u>	<u>369,723</u>
Total assets	<u>\$ 6,218,346</u>	<u>\$ 9,736,056</u>	<u>\$ 15,954,402</u>	<u>\$ 129,233</u>	<u>\$ 392,983</u>

(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, 2003
(amounts expressed in thousands)

	Governmental	Business-type	Total	Component Units	
	Activities	Activities		Governmental	Business-type
Liabilities					
Current Liabilities					
Accounts payable	\$ 54,941	\$ 36,060	\$ 91,001	\$ 4,657	\$ 13,437
Accrued payroll liabilities	32,753	6,415	39,168	27	-
Accrued interest payable	-	801	801	2,948	4,447
Contracts and retainages payable	9,802	16,696	26,498	5,139	15,373
Capital Lease	1,028	-	1,028	-	-
Notes payable	-	-	-	9,800	280
Due to other governments	6,341	352	6,693	1,993	-
Advances and deposits	7,692	2,413	10,105	399	-
Claims and judgments	27,977	11,306	39,283	-	-
Compensated absences	47,430	3,752	51,182	-	-
Other liabilities	3,857	-	3,857	198	-
Deferred revenue	89,249	-	89,249	77	13,144
Accounts payable	-	26,828	26,828	-	-
Revenue bonds payable	-	78,778	78,778	3,366	-
Accrued interest payable	29,442	71,762	101,204	531	-
Advances and deposits	-	24,130	24,130	-	-
Construction billings and retainages	-	143,703	143,703	8,228	-
Bonds payable	464,227	-	464,227	-	-
Other liabilities	945	-	945	-	-
Due to component units	-	133,729	133,729	-	-
	<u>775,684</u>	<u>556,725</u>	<u>1,332,409</u>	<u>37,363</u>	<u>46,681</u>
Long-term Liabilities					
Due to primary government	-	-	-	-	315,493
Capital Lease	52,344	-	52,344	-	-
Notes payable	-	-	-	12,153	3,245
Revenue bonds payable	-	6,425,887	6,425,887	-	-
Claims and judgments	46,330	-	46,330	-	-
Compensated absences	303,303	24,968	328,271	-	-
Contracts payable	-	245,287	245,287	18,928	-
Bonds payable	1,496,103	-	1,496,103	87,455	-
Commercial paper	65,000	437,750	502,750	-	-
Arbitrage rebate	444	5,626	6,070	-	-
Other long-term liabilities	24,865	-	24,865	10,376	467
Municipal pension trust liability	68,240	24,145	92,385	-	-
Police officers' pension trust liability	19,221	-	19,221	-	-
Deferred rent	-	11,875	11,875	-	-
Total long-term liabilities	<u>2,075,850</u>	<u>7,175,538</u>	<u>9,251,388</u>	<u>128,912</u>	<u>319,205</u>
Total liabilities	<u>2,851,534</u>	<u>7,732,263</u>	<u>10,583,797</u>	<u>166,275</u>	<u>365,886</u>
Net assets					
Invested in capital assets, net of related debt	3,354,457	1,068,562	4,423,019	3,127	-
Restricted for debt service	75,499	150,166	225,665	16,934	1,135
Restricted for renewal and replacement	-	363,436	363,436	-	-
Restricted for maintenance and operations	-	53,352	53,352	634	-
Restricted for capital improvements	85,274	437,075	522,349	22,732	1,025
Other restricted	37,204	2,092	39,296	16,564	-
Unrestricted (deficit)	(185,622)	(70,890)	(256,512)	(97,033)	24,937
Total net assets (deficit)	<u>\$ 3,366,812</u>	<u>\$ 2,003,793</u>	<u>\$ 5,370,605</u>	<u>\$ (37,042)</u>	<u>\$ 27,097</u>

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

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

For the Year Ended June 30, 2003
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 150,374	\$ 14,957	\$ 8,478	\$ -
Public safety	818,129	122,864	11,671	-
Public works	238,323	40,413	14,886	6,123
Health	99,617	13,263	44,783	-
Housing and community development	48,393	-	48,790	-
Parks and recreation	84,446	5,176	5,049	-
Library	38,282	1,211	3,933	-
Retiree benefits	21,440	-	-	-
Interest on long-term debt	98,042	-	-	-
Depreciation (excludes direct deprec. exp.)	119,475	-	-	-
Total governmental activities	1,716,521	197,884	137,590	6,123
Business-type activities				
Airport System	265,987	240,767	-	45,527
Convention & Entertainment facilities	76,760	17,010	-	-
Water & Sewer	649,247	539,317	-	2,812
Houston Area Water Corporation	153	-	-	-
Total business-type activities	992,147	797,094	-	48,339
Total primary government	\$ 2,708,668	\$ 994,978	\$ 137,590	\$ 54,462
Component Units				
Governmental	51,611	212	6,094	-
Business-type	25,382	14,673	15,402	-
Total component units activities	\$ 76,993	\$ 14,885	\$ 21,496	\$ -

General Revenues:

Taxes

Property taxes levied for general purposes

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 (loss) on sale of assets

Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets (deficit) beginning - (As Restated - see Note 2C)

Net assets (deficit) 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			Component Units		
Governmental Activities	Business-type Activities	Total	Governmental	Business-type	
\$ (126,939)	\$ -	\$ (126,939)	\$ -	\$ -	
(683,593)	-	(683,593)	-	-	
(176,901)	-	(176,901)	-	-	
(41,571)	-	(41,571)	-	-	
397	-	397	-	-	
(74,221)	-	(74,221)	-	-	
(33,139)	-	(33,139)	-	-	
(21,440)	-	(21,440)	-	-	
(98,042)	-	(98,042)	-	-	
(119,475)	-	(119,475)	-	-	
<u>(1,374,924)</u>	<u>-</u>	<u>(1,374,924)</u>	<u>-</u>	<u>-</u>	
-	20,307	20,307	-	-	
-	(59,750)	(59,750)	-	-	
-	(107,118)	(107,118)	-	-	
-	(153)	(153)	-	-	
-	(146,714)	(146,714)	-	-	
<u>(1,374,924)</u>	<u>(146,714)</u>	<u>(1,521,638)</u>	<u>-</u>	<u>-</u>	
-	-	-	(45,305)	-	
-	-	-	-	4,693	
-	-	-	<u>(45,305)</u>	<u>4,693</u>	
461,888	-	461,888	34,709	1,859	
178,000	-	178,000	-	-	
15,014	-	15,014	-	-	
322,538	-	322,538	-	-	
160,673	-	160,673	-	-	
7,572	-	7,572	-	-	
246	-	246	-	-	
-	43,169	43,169	-	-	
16,550	68,632	85,182	1,990	747	
42,074	33,776	75,850	1,541	-	
101,750	4,979	106,729	1,026	-	
3,346	(1,338)	2,008	-	-	
86,583	(86,583)	-	-	-	
<u>1,396,234</u>	<u>62,635</u>	<u>1,458,869</u>	<u>39,266</u>	<u>2,606</u>	
21,310	(84,079)	(62,769)	(6,039)	7,299	
3,345,502	2,087,872	5,433,374	(31,003)	19,798	
<u>\$ 3,366,812</u>	<u>\$ 2,003,793</u>	<u>\$ 5,370,605</u>	<u>\$ (37,042)</u>	<u>\$ 27,097</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, 2003
(With comparative amounts for 2002)
amounts expressed in thousands

	General	Debt Service	Capital Projects
Assets			
Equity in pooled cash and investments	\$ 72,406	\$ 100,442	\$ 84,174
Receivables, net of allowances			
Accounts receivable	6,637	1	1,100
Property taxes receivable, net	79,527	-	-
Sales taxes receivable	55,715	-	-
Mixed beverage taxes receivable	1,915	-	-
Franchise taxes receivable	36,552	-	-
Special assessments receivable	37,680	-	-
Due from other funds	9,565	24	576
Due from other governments	-	-	-
Inventory	21,074	-	-
Prepaid items	1,642	-	-
Total assets	\$ 322,713	\$ 100,467	\$ 85,850
Liabilities and fund balance			
Liabilities			
Accounts payable	27,863	933	16,958
Accrued payroll liabilities	29,344	-	-
Contracts and retainages payable	289	-	7,694
Due to other funds	330	-	3,652
Due to other governments	5,909	-	432
Advances and deposits	7,251	-	11
Claims and judgments	3,361	-	-
Compensated absences	7,794	-	-
Other liabilities			
Deferred revenue	104,536	-	-
Total liabilities	186,677	933	28,747
Fund balance			
Reserved for imprest cash and prepaids	1,772	-	45
Reserved for equipment acquisitions and other capital outlay	8,089	-	57,058
Reserved for revolving fund and other	-	-	-
Reserved for inventory	21,074	-	-
Reserved for debt service	-	99,534	-
Unreserved	105,101	-	-
Special revenue funds	-	-	-
Total fund balance	136,036	99,534	57,103
Total liabilities and fund balance	\$ 322,713	\$ 100,467	\$ 85,850

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 *

<u>Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 13,182	\$ 81,804	\$ 352,008
101,723	2,865	112,326
-	-	79,527
-	-	55,715
-	-	1,915
-	-	36,552
-	-	37,680
126	146	10,437
11,548	1,634	13,182
1,267	5	22,346
-	-	1,642
<u>\$ 127,846</u>	<u>\$ 86,454</u>	<u>\$ 723,330</u>
4,608	3,897	54,259
1,506	1,824	32,674
1,490	328	9,801
1,682	2,838	8,502
-	-	6,341
-	430	7,692
-	-	3,361
-	-	7,794
-	3,857	3,857
<u>113,856</u>	<u>964</u>	<u>219,356</u>
<u>123,142</u>	<u>14,138</u>	<u>353,637</u>
-	-	1,817
-	-	65,147
-	8,319	8,319
1,267	-	22,341
3,437	-	102,971
-	-	105,101
-	63,997	63,997
<u>4,704</u>	<u>72,316</u>	<u>369,693</u>
<u>\$ 127,846</u>	<u>\$ 86,454</u>	
		5,429,766
		135,681
		1,650
		(2,569,978)
		<u>\$ 3,366,812</u>

* 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

June 30, 2003

amounts expressed in thousands

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Revenues			
Taxes and assessments	\$ 1,142,071	\$ -	\$ -
Licenses and permits	15,334	-	-
Charges for services	127,234	-	-
Intergovernmental - grants	15,385	-	6,123
Fines and forfeits	44,620	-	-
Contributions	864	-	-
Investment income	7,571	4,146	2,083
Other	12,524	758	5,717
Total revenues	<u>1,365,603</u>	<u>4,904</u>	<u>13,923</u>
Expenditures			
General government	130,094	-	45,583
Public safety	731,322	-	68,487
Public works	183,455	-	123,949
Health	51,596	-	-
Housing and Community Development	-	-	-
Parks and recreation	54,067	-	12,295
Library	33,485	-	5,523
Retiree benefits	21,440	-	-
Capital outlay	21,108	-	-
Debt service principal	-	120,754	-
Debt service interest	-	87,438	-
Debt service fiscal agent & fees	-	4,098	-
Total expenditures	<u>1,226,567</u>	<u>212,290</u>	<u>255,837</u>
Other financing sources (uses)			
Proceeds from issuance of debt	23,500	-	186,431
Proceeds from capital lease	-	-	53,379
Proceeds from refunded debt	-	285,801	-
Transfers in	49,440	202,353	140
Transfers out	(191,978)	-	(3,840)
Payment to escrow agent for refunded bonds	-	(283,410)	-
Other financing sources (uses)	-	-	-
Total other financing sources (uses)	<u>(119,038)</u>	<u>204,744</u>	<u>236,110</u>
Changes in fund balance	19,998	(2,642)	(5,804)
Fund balances, July 1, 2002 (as Restated, see Note 2C)	<u>116,038</u>	<u>102,176</u>	<u>62,907</u>
Fund balances, June 30, 2003	<u>\$ 136,036</u>	<u>\$ 99,534</u>	<u>\$ 57,103</u>

(Continued)

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

<u>Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 1,142,071
-	19,712	35,046
-	24,163	151,397
124,747	8,343	154,598
-	-	44,620
-	-	864
314	2,436	16,550
-	27,031	46,030
<u>125,061</u>	<u>81,685</u>	<u>1,591,176</u>
-	7,076	182,753
7,739	32,942	840,490
4,212	50,837	362,453
44,980	57	96,633
59,398	1,002	60,400
5,039	9,607	81,008
3,465	-	42,473
-	-	21,440
-	3,529	24,637
-	-	120,754
-	-	87,438
-	-	4,098
<u>124,833</u>	<u>105,050</u>	<u>1,924,577</u>
-	-	209,931
-	1,000	54,379
-	-	285,801
-	54,298	306,231
-	(23,830)	(219,648)
-	-	(283,410)
-	-	-
<u>-</u>	<u>31,468</u>	<u>353,284</u>
228	8,103	19,883
<u>4,476</u>	<u>64,213</u>	<u>349,810</u>
<u>\$ 4,704</u>	<u>\$ 72,316</u>	<u>\$ 369,693</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, 2003
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds	\$	19,883
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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 (\$164,708) was less than increase in capital assets (\$364,755) in the current period.		200,047
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Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds.		130,249
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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.		(126,185)
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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.		(154,748)
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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.		(47,817)
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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.		(119)
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Change in net assets of governmental activities	\$	21,310
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* 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, 2003
amounts expressed in thousands

	Business-type Activities Enterprise Funds		
	Airport System	Convention & Entertainment	Water & Sewer
Assets			
Equity in pooled cash and investments	\$ 14,772	\$ 23,676	\$ 67,552
Receivables, net of allowances			
Accounts receivable	16,040	130	62,478
Hotel occupancy tax receivable	-	10,845	-
Due from other funds	22	178	51
Inventory	3,565	-	6,694
Prepaid items	1,163	-	-
Total current assets	35,562	34,829	136,775
Noncurrent Assets			
Restricted cash and cash equivalents			
Amounts due from component units	-	315,493	-
Investments	1,083,298	228,772	512,480
Assessments receivable	-	-	101
Accrued interest receivable	-	-	-
Commercial paper receivable	-	-	-
Due from other governments - grants	3,421	-	-
Amounts held by other governments	-	-	8,268
Deferred charges for issuance cost	-	4,963	34,359
Total restricted assets	1,086,719	549,228	555,208
Other assets water rights, net of depreciation			
Water rights, net of depreciation	-	-	207,315
Other long-term receivables	870	-	-
Garage Rights	-	13,144	-
Municipal pension trust asset	-	-	-
Total other assets	870	13,144	207,315
Capital assets			
Land	130,959	99,091	98,842
Buildings, improvements and equipment	2,140,240	272,741	208,438
Plants, lines and rights	-	-	6,360,112
Construction in progress	742,295	171,917	704,315
Total capital assets	3,013,494	543,749	7,371,707
Less accumulated depreciation	(756,208)	(99,023)	(3,099,175)
Net capital assets	2,257,286	444,726	4,272,532
Total noncurrent assets	3,344,875	1,007,098	5,035,055
Total assets	\$ 3,380,437	\$ 1,041,927	\$ 5,171,830

(Continued)

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

<u>Business-type Activities Enterprise Funds</u>		<u>Governmental Activities Internal Service Funds</u>
<u>Nonmajor</u>	<u>Total</u>	
\$ -	\$ 106,000	\$ 11,042
-	78,648	1
-	10,845	-
-	251	17
-	10,259	-
-	1,163	-
-	<u>207,166</u>	<u>11,060</u>
-	315,493	-
45,360	1,869,910	-
-	101	-
-	-	-
-	-	-
-	3,421	-
-	8,268	-
1,747	41,069	-
<u>47,107</u>	<u>2,238,262</u>	<u>-</u>
-	207,315	-
-	870	-
-	13,144	-
-	-	-
-	<u>221,329</u>	<u>-</u>
-	328,892	-
-	2,621,419	-
-	6,360,112	-
97,007	1,715,534	-
<u>97,007</u>	<u>11,025,957</u>	<u>-</u>
-	(3,954,406)	-
<u>97,007</u>	<u>7,071,551</u>	<u>-</u>
<u>144,114</u>	<u>9,531,142</u>	<u>-</u>
<u>\$ 144,114</u>	<u>\$ 9,738,308</u>	<u>\$ 11,060</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, 2003
amounts expressed in thousands

	Business-type Activities Enterprise Funds		
	Airport System	Convention & Entertainment	Water & Sewer
Liabilities			
Current Liabilities			
Accounts payable	\$ 5,994	\$ 2,114	\$ 27,952
Accrued payroll liabilities	1,905	215	4,295
Accrued interest payable	-	-	801
Contracts and retainages payable	192	-	16,504
Due to other funds	344	41	631
Due to other governments	-	12	340
Advances and deposits	2,018	395	-
Claims and judgments	6,708	53	4,545
Compensated absences	105	557	3,090
Deferred revenue	-	-	-
Total current liabilities	17,266	3,387	58,158
Current liabilities payable from restricted assets			
Accounts payable	-	17,430	-
Revenue bonds payable	17,985	6,265	54,528
Accrued interest payable	49,072	6,338	14,128
Advances and deposits	271	238	23,621
Construction billings and retainages	94,786	5,747	39,829
Due to other funds	-	440	229
Due to Component Units	-	133,729	-
Total current liabilities payable from restricted assets	162,114	170,187	132,335
Long-term liabilities			
Revenue bonds payable	2,149,737	637,081	3,509,688
Claims and judgments	-	-	-
Compensated absences	6,363	-	18,605
Contracts payable	-	-	245,287
Commercial paper	-	22,500	415,250
Arbitrage rebate	5,626	-	-
Net pension liability	7,970	893	15,282
Deferred rent	-	11,875	-
Total long-term liabilities	2,169,696	672,349	4,204,112
Total liabilities	2,349,076	845,923	4,394,605
Net assets			
Invested in capital assets, net of related debt	648,027	87,741	332,794
Restricted net assets			
Restricted for debt service	84,529	30,201	35,436
Restricted for renewal and replacement	13,572	-	349,864
Restricted for maintenance and operations	28,123	-	25,796
Restricted for others' capital improvement	-	-	-
Restricted for capital improvements	251,061	186,014	-
Other restricted	2,092	-	-
Unrestricted (deficit)	3,957	(107,952)	33,335
Total net assets (deficit)	\$ 1,031,361	\$ 196,004	\$ 777,225

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 *

<u>Business-type Activities Enterprise Funds</u>		<u>Governmental Activities Internal Service Funds</u>
<u>Nonmajor</u>	<u>Total</u>	
-	\$ 36,060	\$ 681
-	6,415	79
-	801	-
-	16,696	-
-	1,016	518
-	352	-
-	2,413	-
-	11,306	7,812
-	3,752	111
-	-	144
<u>-</u>	<u>78,811</u>	<u>9,345</u>
9,398	26,828	-
-	78,778	-
2,224	71,762	-
-	24,130	-
3,341	143,703	-
-	669	-
-	133,729	-
<u>14,963</u>	<u>479,599</u>	<u>-</u>
129,381	6,425,887	-
-	-	632
-	24,968	-
-	245,287	-
-	437,750	-
-	5,626	-
-	24,145	-
-	11,875	-
<u>129,381</u>	<u>7,175,538</u>	<u>632</u>
<u>144,344</u>	<u>7,733,948</u>	<u>9,977</u>
-	1,068,562	-
-	150,166	-
-	363,436	-
-	53,919	-
-	-	-
-	437,075	-
-	2,092	-
(230)	(70,890)	1,083
<u>\$ (230)</u>		<u>\$ 1,083</u>
	(567)	
	<u>\$ 2,003,793</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
June 30, 2003
amounts expressed in thousands

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Airport System</u>	<u>Convention & Entertainment</u>	<u>Water & Sewer</u>
Operating Revenues			
Landing area fees	\$ 51,162	\$ -	\$ -
Rentals, building and ground area	91,801	-	-
Parking	50,103	10,052	-
Concession	45,167	2,178	-
Other	2,534	-	-
Rental	-	4,780	-
Water/Sewer Billing	-	-	539,317
Health benefit premiums	-	-	-
Admissions	-	-	-
Total operating revenue	<u>240,767</u>	<u>17,010</u>	<u>539,317</u>
Operating Expenses			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	154,541	24,830	250,226
Depreciation and amortization	61,720	13,274	233,401
Total operating expenses	<u>216,261</u>	<u>38,104</u>	<u>483,627</u>
Operating income (loss)	<u>24,506</u>	<u>(21,094)</u>	<u>55,690</u>
Nonoperating revenue (expenses)			
Investment income	30,278	14,311	24,043
Hotel occupancy tax	-	43,169	-
Other revenue	681	713	26,894
Loss on disposal of assets	(616)	-	(722)
Other expenses	-	(19,305)	-
Interest on long-term debt	(49,678)	(19,347)	(165,509)
Arbitrage expense recovery	5,489	-	-
Total nonoperating revenues (expenses)	<u>(13,846)</u>	<u>19,541</u>	<u>(115,294)</u>
Income (loss) before contributions and transfers	<u>10,660</u>	<u>(1,553)</u>	<u>(59,604)</u>
Contributions	<u>45,527</u>	<u>-</u>	<u>7,791</u>
Transfers in	-	6,767	-
Transfers out	-	-	(93,350)
Total transfers	<u>-</u>	<u>6,767</u>	<u>(93,350)</u>
Change in net assets	56,187	5,214	(145,163)
Total net assets, July 1, 2002 (As Restated - see Note 2C)	<u>975,174</u>	<u>190,790</u>	<u>922,388</u>
Total net assets, June 30, 2003	<u>\$ 1,031,361</u>	<u>\$ 196,004</u>	<u>\$ 777,225</u>

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	
\$ -	\$ 51,162	\$ -
-	91,801	-
-	60,155	-
-	47,345	-
-	2,534	-
-	4,780	-
-	539,317	-
-	-	159,675
-	-	-
-	<u>797,094</u>	<u>159,675</u>
61	61	2,604
-	-	158,161
-	429,597	-
92	308,487	-
153	738,145	160,765
(153)	58,949	(1,090)
-	68,632	703
-	43,169	-
-	28,288	268
-	(1,338)	-
-	(19,305)	-
-	(234,534)	-
-	5,489	-
-	<u>(109,599)</u>	<u>971</u>
(153)	(50,650)	(119)
-	53,318	-
-	6,767	-
-	(93,350)	-
-	(86,583)	-
(153)	(83,915)	(119)
(77)	2,088,275	1,202
<u>\$ (230)</u>	<u>2,004,360</u>	<u>\$ 1,083</u>
	(567)	
	<u>\$ 2,003,793</u>	

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

**CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Cash Flows
June 30, 2003
amounts expressed in thousands**

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Airport System</u>	<u>Convention & Entertainment</u>
Cash flows from operating activities		
Receipts from customers	\$ 240,514	\$ 18,085
Payments to employees	(48,852)	(5,123)
Payments to suppliers	(60,028)	(2,493)
Internal activity-payments to other funds	(35,892)	(3,313)
Claims paid	(1,601)	(39)
Due from other governments	-	(4)
Other revenues	681	713
Other expenses	-	(11,257)
Payments to other component units	-	(2,172)
Net cash provided by (used in) operating activities	<u>94,822</u>	<u>(5,603)</u>
Cash flows from investing activities		
Interest income on investments	29,006	15,306
Purchase of investments	(899,392)	(102,262)
Proceeds from sale of investments	533,414	314,492
Net cash provided by (used in) investing activities	<u>(336,972)</u>	<u>227,536</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(4,380)	(5,955)
Proceeds received - Allen's Creek	-	-
Proceeds from issuance of revenue bonds	710,894	-
Retirement of commercial paper	(30,000)	-
Net proceeds from issuance of commercial paper	10,000	22,500
Interest expense on revenue bonds	(87,853)	(19,369)
Interest expense on commercial paper	-	(148)
Interest expense on contracts payable	-	-
Retirement of contractual obligations	-	-
Advances and deposits on construction	10	-
Contributed capital	42,791	-
Acquisition of property, plant and equipment, net	(394,971)	(131,800)
Net cash provided by (used in) capital and related financing activities	<u>246,491</u>	<u>(134,772)</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
Water & Sewer	Nonmajor	Total	
\$ 540,659	\$ -	\$ 799,258	\$ 159,675
(103,878)	-	(157,853)	(1,992)
(106,524)	-	(169,045)	174
(17,190)	-	(56,395)	(2,013)
(3,314)	-	(4,954)	(162,119)
-	-	(4)	-
26,894	-	28,288	-
-	(61)	(11,318)	-
-	-	(2,172)	-
<u>336,647</u>	<u>(61)</u>	<u>425,805</u>	<u>(6,275)</u>
14,630	2,557	61,499	703
(613,096)	(45,360)	(1,660,110)	-
<u>669,568</u>	<u>104,706</u>	<u>1,622,180</u>	<u>-</u>
<u>71,102</u>	<u>61,903</u>	<u>23,569</u>	<u>703</u>
(411,910)	-	(422,245)	-
14,000	-	14,000	-
329,936	-	1,040,830	-
(4,750)	-	(34,750)	-
300,000	-	332,500	-
(147,736)	(5,752)	(260,710)	-
(1,879)	-	(2,027)	-
(16,208)	(36)	(16,244)	-
(16,170)	-	(16,170)	-
-	-	10	-
8,132	-	50,923	-
(371,444)	(56,054)	(954,269)	-
<u>(318,029)</u>	<u>(61,842)</u>	<u>(268,152)</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
June 30, 2003
amounts expressed in thousands**

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Airport System</u>	<u>Convention & Entertainment</u>
Cash flows from noncapital financing activities		
Promotional contract paid from hotel occupancy tax revenues to component units	-	(7,900)
Contributions to others	-	-
Transfers	-	6,767
Other revenues	-	-
Payments to Hotel Corporation	-	(133,159)
Hotel occupancy tax revenue	-	42,399
Transfers to debt service fund	-	-
Transfers to other funds	-	-
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(91,893)</u>
Net increase (decrease) in cash and cash equivalents	4,341	(4,732)
Cash and cash equivalents, July 1	10,431	28,408
Cash and cash equivalents, June 30	<u>\$ 14,772</u>	<u>\$ 23,676</u>
Non cash transactions		
Amortization expense	-	-
Transfer to other funds	-	-
Unrealized gain on investments	(1,272)	(995)
Contributions of capital assets	6,929	11,875
Capitalized interest expense	(50,077)	(2,253)
Gain (loss) on disposal of assets	(616)	-
Total non cash transactions	<u>\$ (45,036)</u>	<u>\$ 8,627</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 24,506	\$ (21,094)
Depreciation and amortization	61,720	13,274
Other revenues	681	713
Other expenses	-	(11,257)
Accounts receivable	1,525	1,227
Due from other funds	186	(145)
Due from other governments	-	-
Inventory and prepaid insurance	(222)	-
Accounts payable	2,877	12,459
Accrued payroll liabilities	224	30
Due to other funds	(490)	(2,819)
Due to other governments	-	(4)
Advances and deposits	(410)	(157)
Construction and retainages payable	-	3,954
Claims for workers' compensation	787	15
Compensated absences	327	24
Due to component units	-	(2,172)
Deferred revenue	-	-
Other long-term liabilities	3,111	349
Net cash provided by (used in) operating activities	<u>\$ 94,822</u>	<u>\$ (5,603)</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
Water & Sewer	Nonmajor	Total	
-	-	(7,900)	-
-	-	-	-
-	-	6,767	-
-	-	-	268
-	-	(133,159)	-
-	-	42,399	-
(23,811)	-	(23,811)	-
(69,539)	-	(69,539)	-
<u>(93,350)</u>	<u>-</u>	<u>(185,243)</u>	<u>268</u>
(3,630)	-	(4,021)	(5,304)
<u>71,182</u>	<u>-</u>	<u>110,021</u>	<u>16,346</u>
<u>\$ 67,552</u>	<u>\$ -</u>	<u>\$ 106,000</u>	<u>\$ 11,042</u>
	92	92	-
	-	-	-
1,439	-	(828)	-
-	-	18,804	-
(13,062)	4,156	(61,236)	-
(722)	-	(1,338)	-
<u>\$ (12,345)</u>	<u>\$ 4,248</u>	<u>\$ (44,506)</u>	<u>\$ -</u>
\$ 55,690	\$ (153)	\$ 58,949	\$ (1,090)
233,401	92	308,487	-
26,894	-	28,288	-
-	-	(11,257)	-
(439)	-	2,313	-
1,280	-	1,321	(16)
99	-	99	-
1,389	-	1,167	-
18,948	-	34,284	593
691	-	945	697
(7,711)	-	(11,020)	(1,978)
-	-	(4)	-
1,781	-	1,214	-
-	-	3,954	-
(933)	-	(131)	(4,642)
(408)	-	(57)	17
-	-	(2,172)	-
-	-	-	144
<u>5,965</u>	<u>-</u>	<u>9,425</u>	<u>-</u>
<u>\$ 336,647</u>	<u>\$ (61)</u>	<u>\$ 425,805</u>	<u>\$ (6,275)</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, 2003
amounts expressed in thousands

	Pension Trust	Agency Funds	Total
Assets			
Cash	\$ 9,887	\$ -	\$ 9,887
Equity in pooled cash and investments	-	32,073	32,073
Investments	5,007,254	-	5,007,254
Invested securities lending collateral	510,979	-	510,979
Receivables, net of allowances			
Accounts receivable	32,172	963	33,135
Contributions	3,302	-	3,302
Accrued interest and other	49,367	-	49,367
Other Assets	3,749	-	3,749
Land	541	-	541
Building	8,392	-	8,392
Total assets	5,625,643	33,036	5,658,679
Liabilities			
Accounts payable	87,229	32,906	120,135
Due to other funds	-	-	-
Advances and deposits	-	130	130
Security lending collateral	510,979	-	510,979
Foreign funds contracts payable	19,205	-	19,205
Other liabilities	497	-	497
Total liabilities	617,910	\$ 33,036	650,946
Net assets			
Held in trust for pension benefits and other purposes	\$ 5,007,733		\$ 5,007,733

* 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
For the Years Ended June 30, 2003
amounts expressed in thousands

	2003
Additions	
Contributions:	
City of Houston	103,256
Plan members	61,765
Total Contributions	165,021
Investment earnings	
Interest and dividends	141,231
Net increase in the fair value of investments	97,638
Total investment earnings	238,869
Less investment expense	(26,279)
Net investment earnings	212,590
Total additions	377,611
 Deductions	
Benefits	235,824
Refund of contributions	1,593
Administrative expense	12,565
Educational outreach	-
Total deductions	249,982
Change in net assets	127,629
 Total net assets, July 1	4,880,104
Total net assets, June 30	\$ 5,007,733

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

CITY OF HOUSTON, TEXAS

