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understanding



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**Note 1: Summary of Significant Accounting Policies**

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

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

The significant accounting policies of the City are as follows:

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

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

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

**B. Basis of Presentation - Financial Reporting Entity**

**1. Component Units**

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

Following are the City's blended component units:

<b>Blended Component Units Reported with the Primary Government</b>	<b>Brief Description of Activities, Relationship to the City and Key Inclusion Criteria</b>
<p><i>Houston Firefighters' Relief &amp; Retirement Fund</i>            4225 Interwood North Parkway            Houston, TX 77032</p>	<p>Responsible for administration, management, and operation of the pension system solely for Houston City firefighters. One member of the Board is either the Mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer.</p> <p><b>Reporting Fund:</b> Houston Firefighters' Relief and Retirement Pension Trust Fund.</p>
<p><i>Houston Municipal Employee's Pension System</i>            1111 Bagby, Suite 2450            Houston, TX 77002</p>	<p>Responsible for administration, management, and operation of the pension system solely for municipal (non-classified) employees of the City. Four members of the Board are appointed by the Mayor or City Council, six are elected by active employees or retirees, and one is the City Treasurer.</p> <p><b>Reporting Fund:</b> Houston Municipal Employee's Pension Trust Fund.</p>

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<b>Blended Component Units Reported with the Primary Government</b>	<b>Brief Description of Activities, Relationship to the City and Key Inclusion Criteria</b>
<p><i>Houston Police Officer's Pension System</i>  602 Sawyer, Suite 300  Houston, TX 77007</p>	<p>Responsible for administration, management, and operation of the pension system solely for active and retired police officers of the City. One member of the Board is appointed by the administrative head of the City, one is the City Treasurer, three are elected by employees, and two are appointed by elected Board members.</p> <p><b>Reporting Fund:</b> Police Officer's Pension Trust Fund.</p>
<p><i>Houston Area Water Corporation</i>  611 Walker, Suite 2100  Houston, TX 77002</p>	<p>The Corporation is organized for the purpose of providing treated, potable water to the City of Houston for sale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District and aiding and assisting the City of Houston in performing its obligations with respect to a regional groundwater reduction plan by, among other things, constructing, improving, equipping, repairing, operating and maintaining water treatment and distribution facilities and purchasing and selling water in connection therewith.</p> <p><b>Reporting Fund:</b> Business Type Non-Major</p>

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

<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<p><i>Houston Convention Center Hotel Corporation ("HCCHC")</i>  c/o George R. Brown  Avenida De Las Americas  Houston, TX 77010</p>	<p>Local government corporation created by the City in accordance with the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code authorized to construct, improve, enlarge, equip, repair, operate and maintain a hotel in downtown Houston within one thousand feet of the George R. Brown Convention Center. Board members are appointed by the Mayor and confirmed by City Council.</p>
<p><i>Houston Housing Finance Corporation ("HHFC")</i>  9545 Katy Freeway, Suite 105.  Houston, TX 77024</p>	<p>Non-profit corporation incorporated by the City in accordance with the Texas Housing Finance Corporation Act to finance residential mortgage loans to low or moderate income persons through the sale of revenue bonds collateralized by the mortgage loans. The Board is nominated by the Mayor and confirmed by City Council. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.</p>
<p><i>Houston Zoo Inc.</i>  1513 N. MacGregor  Houston, TX 77030</p>	<p>Houston Zoo, Inc. (HZI) is a 501 (c)3 and has a contract with Houston Zoo Development Corp to operate the Zoo. The Mayor may appoint up to 20% of the Board of Directors of HZI. Houston Zoo Development Corporation is a local government corporation that was created a year ago. It has a lease from the City for the Zoo. Its board of directors is appointed by the Mayor and approved by City Council. The lease provides for the City to make payments in support of capital and operating expenses over the lease term, which it makes available to Houston Zoo, Inc.</p>

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

<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<p><i>City Park Redevelopment Authority</i>  P.O. Box 22167  Houston, Texas 77227</p>	<p>Special district organized under state statute to redevelop a neighborhood northwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by the City Council and the operations provide financial benefit to the City.</p>

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<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<p><b><i>Cultural Arts Council of Houston</i></b>  <b><i>("CACH")/Harris County</i></b>  <b><i>3201 Allen Parkway, Suite 250</i></b>  <b><i>Houston, TX 77019</i></b></p>	<p>Non-profit organization that is the officially designated arts agency of the City. The City does not appoint a voting majority, but is financially accountable because CACH is fiscally dependent on the revenues provided from a portion of hotel occupancy tax, which is levied by the City.</p>
<p><b><i>East Downtown Redevelopment Authority</i></b>  <b><i>P.O. Box 22167</i></b>  <b><i>Houston, Texas 77227</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood east of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><b><i>Greater Greenspoint Redevelopment Authority</i></b>  <b><i>C/o Hawes Hill &amp; Assoc. Consultants</i></b>  <b><i>P.O. Box 22167</i></b>  <b><i>Houston, Texas 77227-2167</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood in North Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><b><i>Gulfgate Redevelopment Authority</i></b>  <b><i>c/o Knudson &amp; Associates</i></b>  <b><i>8588 Katy Freeway, Suite 441</i></b>  <b><i>Houston, Texas 77024</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood southeast of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><b><i>HALAN - Houston Area Library Automated Network Board</i></b>  <b><i>Houston Central Library</i></b>  <b><i>500 McKinney</i></b>  <b><i>Houston, TX 77002</i></b></p>	<p>Provides review and guidance to the operation, funding and development of the Houston Area Library Automated Network, which provides library services to Houston and surrounding communities. Three members are appointed by City Council, two by the County, and one elected by the smaller libraries. The City does not appoint a voting majority, but is financially accountable for this organization because HALAN is fiscally dependent for all revenues and the City can impose its will.</p>
<p><b><i>Houston Library Board</i></b>  <b><i>Houston Central Library</i></b>  <b><i>500 McKinney</i></b>  <b><i>Houston, TX 77002</i></b></p>	<p>Solicits and manages funds raised privately for library improvements. Advises the Mayor and City Council on additions and improvements to the library system that provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council.</p>
<p><b><i>Houston Parks Board</i></b>  <b><i>2001 Kirby Dr., Suite 814</i></b>  <b><i>Houston, Texas 77019</i></b></p>	<p>Solicits and manages funds raised privately for park acquisitions and advises the Mayor and City Council on park acquisitions and improvements, which provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council.</p>
<p><b><i>Lamar Terrace Public Improvement District</i></b>  <b><i>City of Houston</i></b>  <b><i>Box 1562</i></b>  <b><i>Houston, Texas 77251</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><b><i>Main Street Market Square Redevelopment Authority</i></b>  <b><i>1111 Bagby, Suite 2500</i></b>  <b><i>Houston, Texas 77002</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood in Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>

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<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<i>Memorial City Redevelopment Authority</i> 8588 Katy Freeway, Suite 441 Houston, Texas 77024	Special district organized under state statute to redevelop a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Memorial-Heights Redevelopment Authority</i> 12 Greenway Plaza, Suite 1500 Houston, Texas 77046-1287	Special district organized under state statute to redevelop a blighted neighborhood close to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Midtown Redevelopment Authority</i> 3401 Louisiana, Suite 355 Beinville Building Houston, Texas 77002	Special district organized under state statute to redevelop a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>OST/Almeda Corridors Redevelopment Authority</i> 2413 Blodgett Houston, Texas 77004	Special district organized under state statute to redevelop a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Saint George Place Redevelopment Authority</i> City of Houston Box 1562 Houston, Texas 77251	Special district organized under state statute to redevelop blighted areas in Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets and the books and records are maintained by the City.
<i>Sharpstown Economic Development Authority</i> c/o Hawes, Hill & Associates P.O. Box 22167on, Houston, Texas 77227-2167	Non-profit corporation created by the City under state statute to manage and administer the Sharpstown Public Improvement District (the "PID"). Board members are appointed by the Mayor and approved by City Council.
<i>South Post Oak Redevelopment Authority</i> 8588 Katy Frwy Houston, Texas 77024	Special district organized under state statute to redevelop a blighted neighborhood south/southwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets and the books and records are maintained by the City.
<i>Southwest Houston Redevelopment Authority</i> 7322 Southwest Freeway, Suite 1470 Houston, Texas 7774	Special district organized under state statute to redevelop a blighted neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Upper Kirby Redevelopment Authority</i> 3015 Richmond Avenue, Suite 200 Houston, Texas 77098-3114	Special district organized under state statute to redevelop a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Uptown Development Authority</i> 900 Bagby, City Hall Annex Houston, Texas 77002	Special district organized under state statute to redevelop a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

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**2. Related Organizations**

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

**C. Basis of Presentation – Government-wide and fund financial statements**

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

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

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

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

**Fund Accounting**

**1. The City reports the following major governmental funds:**

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

**2. The City reports the following major enterprise funds:**

- (a) **Airport System Fund** - is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Field.
- (b) **Convention and Entertainment Facilities Fund** - is used to account for the operation of the City's six major entertainment centers and City-owned parking garages. These centers include the following: Jesse H. Jones Hall; Bayou Place; Gus S. Wortham Center; George R. Brown Convention Center and the Tranquillity Park and Theater District parking garages.
- (c) **Water and Sewer System Fund** - are used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

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3. The City reports the following fund types:

- (a) **Nonmajor Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.
- (b) **Internal Service Funds** - are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.
- (c) **Fiduciary Fund Types**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:

- (1) **Pension Trust Funds** - are accounted for in essentially the same manner as proprietary funds.
- (2) **Agency Funds** - are custodial in nature and do not involve measurement of results of operations.

**D. Measurement Focus and Basis of Accounting**

The government-wide financial statements display information about the City of Houston as a whole. Government-wide statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with Statement of Government Accounting Standards 33. Program revenues include (1) amounts received from those who purchase, use, or directly benefit from a program, (2) amounts received from parties outside the City of Houston's citizenry that are restricted to one or more specific programs and (3) earnings on investments that are legally restricted for a specific program. Program revenue is divided into three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions.

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

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

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

All proprietary funds and pension trust funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. In accordance with GASB Statement No. 20, the City has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued subsequent to that date. All proprietary funds define operating revenues consistent with the precepts of Statement of Government Accounting Standards 9 paragraphs 16 - 19 and 31: cash receipts from customers, cash receipts from quasi-external operating transactions with other funds and other operating cash receipts. All other revenue recognized is non-operating.

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



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

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

**E. Changes in Accounting Principles**

In the fiscal year 2003, the City adopted two statements of financial accounting standards issued by the GASB.

- Statement No. 39 Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14 (Issued 5/02)
- Statement No. 41 Budgetary Comparison Schedules-Perspective Differences-an amendment of GASB Statement No. 34 (Issued 5/03)

Statement No. 39 continues the requirement in Statement 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement 14.

All entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. This Statement amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

The economic resources received or held by the separate organizations are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituent.

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

Statement No. 41 amends Statement 34 by clarifying the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget.

**F. Auto Dealers Fund**

For the year ended June 30, 2003, expenditures exceeded appropriations in public safety of the Auto Dealers Fund by \$623,000. These excess expenditures were funded by greater than anticipated revenues in the case of the police department.

**G. Assets, Liabilities, and Fund Equity**

**1. Deposits and Investments**

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

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

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized Certificates of Deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms. Investments are carried at fair value based on quoted market prices.

**2. Inventories of Materials and Supplies**

Inventories are carried at the average cost in government-wide, proprietary and governmental funds. Inventories are presented under the consumption method. These inventories include: fuel, automobile parts, chemical and medical supplies, uniforms and their accessories, vaccines and office supplies.

**3. Capital Assets**

**a. Property, Plant, Equipment, and Infrastructure**

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as a part of the capitalized value of the assets constructed. Buildings and improvements, improvements other than buildings, machinery and equipment and infrastructure is depreciated using the straight-line method over the following estimated useful lives:

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

**b. Enterprise Funds**

Property, plant, and equipment owned by the Enterprise Funds are stated at cost or estimated historical cost if original cost is not available. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Land and equipment costs are added to the capital asset base in the year of acquisition. Interest costs on funds borrowed to finance the construction of property, plant and equipment of the enterprise funds are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. For fiscal year 2003, the capitalized interest cost for the Airport System Facilities was \$50.1 million, Water & Sewer Fund was \$13.1 million and Convention & Entertainment Facilities Fund was \$2.3 million.

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

Assets	Years
Airport System Facilities	4-45
Convention & Entertainment Facilities	4-45
Water and Sewer System Facilities	5-50

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

**4. Bond Discounts and Issuance Costs**

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

**5. Fund Balance**

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

**H. Transfers, Revenues, Expenditures and Expenses**

**1. Interfund Transactions**

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

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

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

**2. Compensated Absences**

Full-time employees of the City are eligible for vacation leave of 10 working days per year. After 5 years of full-time employment with the City, they receive an extra day of vacation and continue to earn an extra day per year for each additional year of service up to a maximum of 12 extra days. Employees may accumulate up to 90 days of vacation leave. Upon termination or retirement, employees are paid for unused vacation leave, up to 90 days inclusive of vacation paid during that calendar year, in the amount determined by taking the average rate during the employee's last sixty (60) days of employment. Part-time employees (those working less than 30 hours per week) are not eligible for vacation leave benefits. The City uses the General Fund to liquidate compensated absences.

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Generally all full-time employees are covered under the compensatory sick leave plan and receive a bi-weekly leave time allowance of 2.5 hours per payroll period up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses two days or less of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination.

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

On a government-wide basis, vacation and compensatory time benefits are accrued as liabilities as the benefits are earned by employees to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments. On a fund financial statement basis, only matured liabilities are accrued.

Sick leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement.

**I. Statement of Cash Flows æ Cash and Cash Equivalents**

The City considers cash and cash equivalents to be unrestricted equity in pooled cash and investments which consist of cash on hand, demand deposits and all highly liquid investments which can be deposited or withdrawn without notice or penalty. Generally, restricted assets have maturities greater than three months.

**J. Estimates**

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

**K. Internal Service Funds**

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

**L. New Accounting Pronouncement**

In November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement will, among other things, establish accounting and financial reporting standards for the impairment of capital assets. Under this standard, a capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption, which is required on or before the City's fiscal year ending June 30, 2006.

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

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

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

**Balances at June 30, 2003, were (in thousands):**

Unamortized bond issuance cost	\$ 5,431
Deferred revenue	130,250
	<u>\$ 135,681</u>
Internal Service fund total assets	11,060
Internal Service fund liabilities	(9,977)
Cumulative asset resulting from undercharging the enterprise funds	567
	<u>\$ 1,650</u>
Bonds, notes, and capital lease payable	\$ (2,104,512)
Arbitrage rebate payable	(444)
Accrued interest	(29,442)
Compensated absences not reported at the fund level	(342,828)
Claims and judgments not reported at the fund level	(62,503)
Net pension obligation (liabilities less assets)	(30,249)
	<u>\$ (2,569,978)</u>

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

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

Debt issued:	
Refunded bonds	\$ 247,285
Certificates of obligations	12,400
Commercial paper	220,000
Capital lease	54,379
Section 108 Loans	11,460
Premium on bonds	16,516
Deferred loss on refunding	(4,905)
Capital appreciation bonds accretion	460
Capital appreciation bonds retired	<u>(1,201)</u>
	<u>556,394</u>
Repayments:	
Refunded bonds	(256,505)
Commercial paper	(22,000)
Principal payments	<u>(122,671)</u>
	<u>(401,176)</u>
Amortization of:	
Deferred gain	1,476
Premium	(1,946)
Net adjustment	<u>\$ 154,748</u>

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

Property taxes earned but not available	\$ 68,720
Ambulance fees earned but not available	3,694
Fines and forfeits earned but not available	11,260
Other (primarily assessments) earned but not available	46,575
Total revenue not reported at fund level	<u>\$ 130,249</u>
Property taxes for prior periods	\$ (64,860)
Ambulance fees for prior periods	(6,112)
Fines and forfeits for prior periods	(7,456)
Other (primarily assessments) for prior periods	(47,757)
Total revenue for prior period transactions	<u>\$ (126,185)</u>
Interest on long-term debt (accrued)	\$ (8,601)
Municipal Employees pension expense	(26,640)
Police Officers' pension expense	(22,406)
Firefighters' pension expense	5,320
Decrease in claims and judgments	1,438
Debt issuance costs paid	2,397
Amortization of debt issuance costs	(302)
Increase in compensated absences	393
Decrease in other liabilities	584
	<u>\$ (47,817)</u>

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**C. Restatement of Prior Year's Ending Balance**

In connection with the preparation of the June 30, 2003 financial statements, certain restatements to ending June 30, 2002 net assets were discovered as noted below:

	Restated 2002	Adjustment	Note	Restated Balance 2002	Adjustment	Note	Original Balance 2002
	Government-wide			Fund-level			
<b>Governmental-wide net assets</b>							
Invested in capital assets, net of related debt	3,327,146	1,240,648	(a)				2,086,498
Restricted for debt service	83,412	14,260	(b)				69,152
Restricted for capital improvements	62,907	-					62,907
Other restricted	64,635	(131,118)	(b)				195,753
Unrestricted (deficit)	(192,598)	28,333	(c)				(220,931)
<b>Total governmental net assets</b>	<u>3,345,502</u>	<u>1,152,123</u>					<u>2,193,379</u>
<b>General Fund - fund balance</b>							
				116,038	11,377		104,661
<b>Debt Service Fund - fund balance</b>							
				102,176	(3,077)	(i)	105,253
<b>Capital Projects Fund - fund balance</b>							
				62,907	-		62,907
<b>Grants</b>							
				4,476	2,077	(i,j)	2,399
<b>Nonmajor Funds - fund balances</b>							
				-			-
<b>Public Safety Special Fund</b>							
				11,094	1,460	(g)	9,634
<b>Public Works Special Fund</b>							
				17,232	-		17,232
<b>Health and Housing Special Fund</b>							
				5,831	-		5,831
<b>Parks &amp; Recreation Special Fund</b>							
				2,508	-		2,508
<b>Other Special Revenue Fund</b>							
				27,548	7,428	(g)	20,120
				<u>349,810</u>	<u>19,265</u>		<u>330,545</u>
<b>Business-type (net assets)</b>							
Invested in capital assets, net of related debt	1,232,682	49,007	(d)				1,183,675
Restricted for debt service	88,355						88,355
Restricted for renewal and replacement	377,805						377,805
Restricted for maintenance and operations	60,732						60,732
Restricted for capital improvements	569,738	(4,614)	(h)				574,352
Other restricted	2,145						2,145
Unrestricted (deficit)	(243,585)	(16,973)	(e,f)				(226,612)
<b>Total business-type net assets</b>	<u>2,087,872</u>	<u>27,420</u>					<u>2,060,452</u>

- ( a ) This item primarily reflects the recording of additional capital related (infrastructure) assets.
- ( b ) This item is reclassified to reflect HUD 108 loan restrictions.
- ( c ) This item reflects the portion of net pension assets that relates to governmental activities and inventory held by various City departments.
- ( d ) This item reflects the addition of capital assets donated by developers, net of adjustments to capitalized interest.
- ( e ) This item reflects the portion of net pension assets that relates to enterprise funds (business-type).
- ( f ) This item reflects the reconciliation of various accounts receivable and accounts payable related items.
- ( g ) This item reflects the addition of Municipal Courts Technology Fund and prior period adjustments to special city deposit fund.
- ( h ) This item reflects adjustments to amounts held for component unit.
- ( i ) This item reflects the movement to certain fund activities to the appropriate fund category.
- ( j ) This item represents an overstatement of a receivable in the prior year.



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**Note 3: Deposits and Investments**

**A. Deposits**

The City's deposits, including component units, are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uncollateralized.

At June 30, 2003, the carrying amount of the City's deposits was \$21,118,000 and the bank balance was \$39,754,110. Of this amount, \$500,000 was covered by federal depository insurance and the balance was covered by collateral held by the City's agent in the City's name (category 1).

The carrying amount and the bank balance of the pension trust fund component unit deposits was \$9,887,000 and is covered by collateral held by a third party in the City's name (category 1).

The carrying amount of the discretely presented component unit deposits was \$33,821,000 with a bank balance of \$33,199,091 covered by the collateral held by the City's agent in the name of the discretely presented component unit except for \$3,302,503 uncollateralized (category 1).

**B. Investments**

The City's investments, including component units, are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 includes investments that are insured or registered or for which the securities are held by the City's agent in the City's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

Certain investments, such as commingled funds, mortgage loans, and real estate limited partnership, are not required to be categorized because they are not evidenced by securities that exist in physical or book entry form.

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A summary of investments by risk category as of June 30, 2003 follows (in thousands):

Type of Investment	Category				Total
	1	2	3	Not Categorized	
<b>Primary Government</b>					
<i>City of Houston</i>					
U.S. government and agency securities	\$ 1,941,224	\$ -	\$ -	\$ -	\$ 1,941,224
State and local government issues	139,954	-	-	-	139,954
Commercial Paper	61,209	-	-	-	61,209
Money Market Mutual Funds	-	-	-	18,900	18,900
Flexible repurchase agreements	-	140,099	-	-	140,099
Other Mutual Funds	3,169	-	-	-	3,169
<b>Total City</b>	<b>2,145,556</b>	<b>140,099</b>	<b>-</b>	<b>18,900</b>	<b>2,304,555</b>
<i>Houston Area Water Corporation</i>					
U.S. government and agency securities	39,767	-	-	-	39,767
State and local government issues	3,021	-	-	-	3,021
Commercial Paper	1,648	-	-	-	1,648
Money Market Mutual Funds	-	-	-	916	916
Certificate of Deposit	8	-	-	-	8
<b>Total Houston Area Water Corporation</b>	<b>44,444</b>	<b>-</b>	<b>-</b>	<b>916</b>	<b>45,360</b>
<b>Total Primary Government</b>	<b>\$ 2,190,000</b>	<b>\$ 140,099</b>	<b>\$ -</b>	<b>\$ 19,816</b>	<b>\$ 2,349,915</b>
<b>Pension Trust Fund component units</b>					
U.S. government and agency securities	\$ 213,671	\$ -	\$ -	\$ -	\$ 213,671
Corporate bonds	400,040	-	-	-	400,040
Other fixed income securities	-	-	811,280	-	811,280
Commingled equity funds	-	-	-	1,568,471	1,568,471
Common & preferred stock	587,709	-	439,387	-	1,027,096
Real estate and partnerships	-	-	-	760,350	760,350
Short-term investment funds	46,501	-	-	179,845	226,346
Collateral on security lending	-	-	285,449	225,530	510,979
<b>Total pension trust fund component units</b>	<b>\$ 1,247,921</b>	<b>\$ -</b>	<b>\$ 1,536,116</b>	<b>\$ 2,734,196</b>	<b>\$ 5,518,233</b>
<b>Discretely Presented Component Units</b>					
U.S. government and agency securities	\$ 28,196	\$ -	\$ -	\$ -	\$ 28,196
State and local government issues	292	-	-	-	292
Corporate bonds	4,813	-	-	-	4,813
Common stock	-	12,513	-	-	12,513
Commercial Paper	143	-	-	-	143
Land	-	-	-	3	3
External Investment Pool	-	-	-	2,074	2,074
Money market and mutual funds	-	-	-	22,451	22,451
Certificates of Deposit	1	-	-	-	1
<b>Total discretely presented component units</b>	<b>\$ 33,445</b>	<b>\$ 12,513</b>	<b>\$ -</b>	<b>\$ 24,528</b>	<b>\$ 70,486</b>

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**Note 4: Allowance for Doubtful Accounts**

The following were the allowances for doubtful accounts receivable by fund as of June 30, 2003 (in thousands):

<b>Fund</b>	<b>Amount</b>
General	
Uncollectible General Property Taxes	\$ 24,594
Ambulance Charges	242,947
Fines and forfeits	134,729
Others	2,768
Grant Revenue	1,707
Airport System	2,537
Convention and Entertainment Facilities	
Accounts Receivable	600
Hotel Occupancy Tax	353
Water and Sewer System	68,025
	\$ 478,260

**Note 5: Property Tax**

The City's annual ad valorem property tax is required to be levied by October 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due on January 31 of the year following the year of the levy. A lien is placed on taxable property if the assessment remains unpaid as of June 30 of the year following the year of the levy. The tax rate established by the City Council for the 2002 tax year was \$0.655 per \$100 of assessed value with \$0.47459 for operations and \$0.18041 for debt service.

The City Charter limits the property tax rate to \$0.50 per \$100 of assessed valuation excluding taxes levied for "debt service," as that term is defined in Section 1 of Article III of the City Charter.

The Texas Property Tax Code ("Code"), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for countywide appraisal districts. Since January 1, 1983, the appraisal of property within the City has been the responsibility of the countywide appraisal district.

The appraisal district is required under the Code to appraise all taxable property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of real property within the appraisal district must be reviewed every three years. However, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, take legal action.

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**Note 6: Capital Assets**

**A. Governmental activities of the Primary Government**

A summary of changes in capital assets for the year ended June 30, 2003 follows (in thousands):

	Balance July 1, 2002	Additions	Retirements	Transfers	Balance June 30, 2003
<b>Primary Government</b>					
Capital assets not being depreciated:					
Land	\$ 333,155	\$ 3,960	\$ (26)	\$ -	\$ 337,089
Land associated with capital lease	-	3,200	-	-	3,200
Right of way	1,460,207	98,098	-	-	1,558,305
Construction Work in Progress	275,399	193,710	-	(8,469)	460,640
Total capital assets not being depreciated	<u>2,068,761</u>	<u>298,968</u>	<u>(26)</u>	<u>(8,469)</u>	<u>2,359,234</u>
Other capital assets:					
Buildings	288,716	1,973	(326)	4,649	295,012
Buildings associated with capital lease	-	50,179	-	-	50,179
Improvements and Equipment	542,601	17,624	(25,520)	3,820	538,525
Streets, Storm Sewers, Bridges	4,384,350	2,788	-	-	4,387,138
Total other capital assets	<u>5,215,667</u>	<u>72,564</u>	<u>(25,846)</u>	<u>8,469</u>	<u>5,270,854</u>
Less accumulated depreciation for:					
Buildings	(191,285)	(13,600)	110	-	(204,775)
Buildings associated with capital lease	-	(1,677)	-	-	(1,677)
Improvements and Equipment	(277,931)	(29,956)	18,983	-	(288,904)
Infrastructure	(1,585,491)	(119,475)	-	-	(1,704,966)
Total accumulated depreciation	<u>(2,054,707)</u>	<u>(164,708)</u>	<u>19,093</u>	<u>-</u>	<u>(2,200,322)</u>
Other capital assets, net	3,160,960	(92,144)	(6,753)	8,469	3,070,532
Primary Government capital assets, net	<u>\$ 5,229,721</u>	<u>\$ 206,824</u>	<u>\$ (6,779)</u>	<u>\$ -</u>	<u>\$ 5,429,766</u>

**B. Business-type Activities**

	Balance July 1, 2002	Additions	Retirements	Transfers	Balance June 30, 2003
<b>Airport System</b>					
Capital assets not being depreciated:					
Land	\$ 129,409	\$ 2,267	\$ (230)	\$ (487)	\$ 130,959
Construction Work in Progress	647,910	458,469	-	(364,084)	742,295
Total capital assets not being depreciated	<u>777,319</u>	<u>460,736</u>	<u>(230)</u>	<u>(364,571)</u>	<u>873,254</u>
Other capital assets:					
Buildings, Improvements and Equipment	1,766,574	11,415	(2,320)	364,571	2,140,240
Total other capital assets	<u>1,766,574</u>	<u>11,415</u>	<u>(2,320)</u>	<u>364,571</u>	<u>2,140,240</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(697,819)	(58,389)	-	-	(756,208)
Total accumulated depreciation	<u>(697,819)</u>	<u>(58,389)</u>	<u>-</u>	<u>-</u>	<u>(756,208)</u>
Other capital assets, net	1,068,755	(46,974)	(2,320)	364,571	1,384,032
Airport System capital assets, net	<u>1,846,074</u>	<u>413,762</u>	<u>(2,550)</u>	<u>-</u>	<u>2,257,286</u>
<b>Convention and Entertainment Facilities</b>					
Capital assets not being depreciated:					
Land	65,694	33,397	-	-	99,091
Construction Work in Progress	61,640	110,277	-	-	171,917
Total capital assets not being depreciated	<u>127,334</u>	<u>143,674</u>	<u>-</u>	<u>-</u>	<u>271,008</u>
Other capital assets:					
Buildings, Improvements and Equipment	272,741	-	-	-	272,741
Total other capital assets	<u>272,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>272,741</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(93,312)	(5,711)	-	-	(99,023)
Total accumulated depreciation	<u>(93,312)</u>	<u>(5,711)</u>	<u>-</u>	<u>-</u>	<u>(99,023)</u>
Other capital assets, net	179,429	(5,711)	-	-	173,718
Convention and Entertainment Facilities capital assets, net	<u>306,763</u>	<u>137,963</u>	<u>-</u>	<u>-</u>	<u>444,726</u>

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	Balance July 1, 2002	Additions	Retirements	Transfers	Balance June 30, 2003
<b>Water and Sewer System</b>					
Capital assets not being depreciated:					
Land	87,744	11,249	(151)	-	98,842
Construction Work in Progress	865,003	350,448	-	(511,136)	704,315
Total capital assets not being depreciated	<u>952,747</u>	<u>361,697</u>	<u>(151)</u>	<u>(511,136)</u>	<u>803,157</u>
Other capital assets:					
Buildings, Improvements and Equipment	200,546	2,992	(2,780)	7,680	208,438
Plants and Lines	5,855,487	5,232	(4,063)	503,456	6,360,112
Total other capital assets	<u>6,056,033</u>	<u>8,224</u>	<u>(6,843)</u>	<u>511,136</u>	<u>6,568,550</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(102,581)	(9,558)	2,704		(109,435)
Plants and Lines	(2,815,537)	(177,602)	3,399	-	(2,989,740)
Total accumulated depreciation	<u>(2,918,118)</u>	<u>(187,160)</u>	<u>6,103</u>	<u>-</u>	<u>(3,099,175)</u>
Other capital assets, net	<u>3,137,915</u>	<u>(178,936)</u>	<u>(740)</u>	<u>511,136</u>	<u>3,469,375</u>
Water and Sewer System capital assets, net	<u>4,090,662</u>	<u>182,761</u>	<u>(891)</u>	<u>-</u>	<u>4,272,532</u>
<b>Houston Area Water Corporation</b>					
Capital assets not being depreciated:					
Construction Work in Progress	25,365	71,642	-	-	97,007
Total capital assets not being depreciated	<u>25,365</u>	<u>71,642</u>	<u>-</u>	<u>-</u>	<u>97,007</u>
Houston Area Water Corporation capital assets, net	<u>25,365</u>	<u>71,642</u>	<u>-</u>	<u>-</u>	<u>97,007</u>
Business-type activities capital assets, net	<u>\$ 6,268,864</u>	<u>\$ 806,128</u>	<u>\$ (3,441)</u>	<u>\$ -</u>	<u>\$ 7,071,551</u>

**C. Depreciation Expense**

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

<b>Governmental activities</b>	
General government	\$ 2,103
Public safety	20,394
Public works	8,307
Health	1,518
Parks and recreation	11,791
Library	1,120
Infrastructure	119,475
Total depreciation expense - governmental activities	<u>\$ 164,708</u>
<b>Business-type activities</b>	
Airport System	\$ 58,389
Convention & Entertainment Facilities	5,711
Water & Sewer	187,160
Total depreciation expense - business-type activities	<u>\$ 251,260</u>

**D. Pension Trust Funds**

In February 1998, the Firefighters' Relief and Retirement Fund purchased land in the amount of \$541,194 for use in the construction of a new office building for its operations and its members. In April of 2001, the construction of the new building was completed. The building cost of \$9,070,087 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2003 amounted to \$678,087.

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

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

Short-term debt activity for the year ended June 30, 2003, was as follows (amounts in thousands):

	<u>Balance</u> <u>July 1, 2002</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2003</u>
Tax and Revenue Anticipation Notes	\$ -	\$ 205,000	\$ 205,000	\$ -

On July 1, 2002, the City closed on the sale of \$175,000,000 Tax and Revenue Anticipation Notes (“TRANS”), Series 2002. The proceeds of the TRANS were used to pay working capital expenditures until tax revenues were received. The stated interest rate range was 1.5% to 3.0%, and the average yield was 1.59%. The notes matured on June 30, 2003.

On October 23, 2002 the City signed a Note Purchase Agreement for up to \$75,000,000 TRANS, Series 2002A. The City drew \$30,000,000 of this amount in two transactions in October 2002. The proceeds of the TRANS Series A were used to pay working capital expenditures until tax revenues were received. The interest rate was 1.49%. The notes matured on April 15, 2003.

**Note 8: Long-Term Liabilities**

**A. General Long-Term Liabilities**

Changes in General Long-Term Liabilities for the year ended June 30, 2003 are summarized as follows (in thousands):

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
<b>Governmental Activities</b>					
<b>Bonds and notes payable</b>					
General Tax Obligation Debt	\$ 1,921,934	\$ 479,685	\$ (399,259)	\$ 2,002,360	\$ 464,227
Accretions, net	2,251	460	(1,201)	1,510	-
HUD Section 108 Loans	15,260	11,460	(910)	25,810	945
Houston Emergency Center Capital Lease	-	54,379	(1,007)	53,372	1,028
Plus premium on bonds	18,145	16,516	(1,946)	32,715	-
Less deferred amount on refundings	(7,826)	(4,905)	1,476	(11,255)	-
Total bonds and notes payable	<u>1,949,764</u>	<u>557,595</u>	<u>(402,847)</u>	<u>2,104,512</u>	<u>466,200</u>
<b>Other liabilities:</b>					
Claims and Judgments	79,293	-	(4,986)	74,307	27,977
Compensated Absences	349,825	-	908	350,733	47,430
Arbitrage Rebate	674	-	(230)	444	-
Pension Liability	56,320	31,141	-	87,461	-
Total other liabilities	<u>486,112</u>	<u>31,141</u>	<u>(4,308)</u>	<u>512,945</u>	<u>75,407</u>
<b>Governmental Activities Long-Term Liabilities</b>	<u>\$ 2,435,876</u>	<u>\$ 588,736</u>	<u>\$ (407,155)</u>	<u>\$ 2,617,457</u>	<u>\$ 541,607</u>
<b>Discretely Presented Component Units:</b>					
Notes Payable	28,986	-	(13,588)	15,398	-
Revenue Bonds	63,465	23,990	-	87,455	-
<b>Discretely Presented Component Units Long-Term</b>	<u>\$ 92,451</u>	<u>\$ 23,990</u>	<u>\$ (13,588)</u>	<u>\$ 102,853</u>	<u>\$ -</u>

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	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
<b>Business-type activities</b>					
<b>Bonds and notes payable</b>					
Airport System debt	\$ 1,509,240	\$ 734,505	\$ (34,380)	\$ 2,209,365	\$ 17,985
Convention and Entertainment debt	626,540	22,500	(5,955)	643,085	6,265
Water & Sewer System debt	3,609,644	649,835	(416,660)	3,842,819	54,528
Houston Area Water Corporation	130,260	-	-	130,260	-
Long-term contracts - Water & Sewer	252,916	24,581	(14,726)	262,771	16,105
Premiums, discounts and deferred amount on refundings	95,014	26,368	(5,476)	115,906	-
Total bonds and notes payable	<u>6,223,614</u>	<u>1,457,789</u>	<u>(477,197)</u>	<u>7,204,206</u>	<u>94,883</u>
<b>Other liabilities:</b>					
Claims and Judgments	11,437	-	(131)	11,306	11,306
Compensated absences	28,777	-	(57)	28,720	3,752
Arbitrage Rebate	11,110	980	(6,464)	5,626	-
Total other liabilities	<u>51,324</u>	<u>980</u>	<u>(6,652)</u>	<u>45,652</u>	<u>15,058</u>
<b>Business-type activities long-term liabilities</b>	<u>\$ 6,274,938</u>	<u>\$ 1,458,769</u>	<u>\$ (483,849)</u>	<u>\$ 7,249,858</u>	<u>\$ 109,941</u>
<b>Total Reporting Entity long-term liabilities</b>	<u>\$ 8,803,265</u>	<u>\$ 2,071,495</u>	<u>\$ (904,592)</u>	<u>\$ 9,970,168</u>	<u>\$ 651,548</u>

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

	Stated Interest Rate Range	Face Value Outstanding 7/1/2002	FY03 Issued/ Increased
<b>General Tax Obligation Debt</b>			
General Obligation Bonds	3.6 to 5.40	\$ 3,365	\$ -
Public Improvement Bonds	4.50 to 7.00	1,467,340	247,285
Commercial Paper	1.05 to 10.00	319,300	220,000
Annexed District Bonds	3.75 to 12.27	97,401	-
Tax and Revenue Certificates of Obligation	3.50 to 6.00	34,528	12,400
<b>Total General Tax Obligation Debt</b>		<b>\$ 1,921,934</b>	<b>\$ 479,685</b>
<b>HUD Section 108 Loans</b>		<b>\$ 15,260</b>	<b>\$ 11,460</b>
<b>Houston Emergency Center Lease</b>	5.0	<b>\$ -</b>	<b>\$ 54,379</b>
<b>Revenue Bonded Debt</b>			
<b>Airport System Bonds</b>			
Subordinate Lien Refunding Revenue Bonds	1.21 to 6.75	\$ 1,489,240	\$ 724,505
Commercial Paper	1.65 to 10.00	20,000	10,000
		<u>1,509,240</u>	<u>734,505</u>
<b>Convention and Entertainment Facilities</b>			
Senior Lien Hotel Occupancy Tax/Parking Facilities	1.45 to 6.0	626,540	-
Hotel and Parking Revenue Commercial Paper	1.24 to 6.0	-	22,500
		<u>626,540</u>	<u>22,500</u>
<b>Water &amp; Sewer System Facilities</b>			
Water & Sewer System Prior Lien Revenue Bonds	4.40 to 8.50	232,710	-
Water and Sewer System Junior Lien Revenue Bonds	2.72 to 7.00	3,256,934	349,835
Water and Sewer System Commercial Paper	1.24 to 10.00	120,000	300,000
		<u>3,609,644</u>	<u>649,835</u>
<b>Houston Area Water Corporation</b>	3.75 to 5.50	<u>130,260</u>	<u>-</u>
<b>Long-Term Contracts-Water &amp; Sewer System</b>			
Coastal Water Authority	4.35 to 7.50	241,416	-
Trinity River Authority	4.00 to 7.10	11,500	-
Other Long Term Contracts	3.22 to 5.87	-	24,581
		<u>252,916</u>	<u>24,581</u>
<b>Total Revenue Bonded Debt and Long-Term Contracts, Primary Government</b>		<b>\$ 6,128,600</b>	<b>\$ 1,431,421</b>
<b>Total Bonds and Long-Term Contracts Payable, Primary Government</b>		<b>\$ 8,065,794</b>	<b>\$ 1,976,945</b>

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

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FY03 Redeemed/Refunded	Face Value Outstanding 6/30/03	Adjustments <sup>(1)</sup>	Net Outstanding 6/30/2003
\$ 1,000	\$ 2,365	\$ -	\$ 2,365
211,990	1,502,635	21,460	1,524,095
124,000	415,300	-	415,300
54,869	42,532	414	42,946
7,400	39,528	1,096	40,624
<u>\$ 399,259</u>	<u>\$ 2,002,360</u>	<u>\$ 22,970</u>	<u>\$ 2,025,330</u>
<u>\$ 910</u>	<u>\$ 25,810</u>	<u>\$ -</u>	<u>\$ 25,810</u>
<u>\$ 1,007</u>	<u>\$ 53,372</u>	<u>\$ -</u>	<u>\$ 53,372</u>
\$ 4,380	\$ 2,209,365	\$ (41,643)	\$ 2,167,722
30,000	-	-	-
34,380	2,209,365	(41,643)	2,167,722
5,955	620,585	22,761	643,346
-	22,500	-	22,500
5,955	643,085	22,761	665,846
232,710	-	-	-
179,200	3,427,569	136,647	3,564,216
4,750	415,250	-	415,250
416,660	3,842,819	136,647	3,979,466
-	130,260	(879)	129,381
13,226	228,190	(980)	227,210
1,500	10,000	-	10,000
-	24,581	-	24,581
14,726	262,771	(980)	261,791
<u>\$ 471,721</u>	<u>\$ 7,088,300</u>	<u>\$ 115,906</u>	<u>\$ 7,204,206</u>
<u>\$ 872,897</u>	<u>\$ 9,169,842</u>	<u>\$ 138,876</u>	<u>\$ 9,308,718</u>

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**C. Terms of Long-Term Debt**

**1. General Obligation Bonds**

These bonds are payable from the general revenue of the City. No new General Obligation Bonds were issued this fiscal year.

**2. Public Improvement Bonds**

The City has issued Public Improvement Bonds on numerous occasions. The proceeds are used for street and bridge improvements, traffic signals, municipal buildings, parks, and other capital improvements. Interest is payable semi-annually; principal is payable annually through March 1, 2025.

**3. General Obligation Commercial Paper**

The City currently issues Commercial Paper Notes ("Notes") under its \$348,000,000 General Obligation Commercial Paper Program, Series A, its \$99,300,000 General Obligation Commercial Paper Program, Series B, its \$65,000,000 General Obligation Commercial Paper Program, Series C and its \$165,000,000 General Obligation Commercial Paper Program Series D, and its \$75,000,000 General Obligation Commercial Paper Program Series E. The Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Notes, but not to exceed 10%. Principal on the Notes is payable from ad valorem tax revenue, the issuance of new commercial paper, bond proceeds and other funds provided under the line of credit. Interest is payable as the Notes mature from ad valorem tax revenue collected by the City. Proceeds from the Notes are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the Notes will be remarketed by the commercial paper dealers or extinguished with long-term debt.

During fiscal year 2003 the weighted average interest rates for the Series A, B, C, D and E Notes were 1.36%, 1.49%, 1.55%, 1.34%, and 1.29% respectively. The Series A, C and D Liquidity Agreements expire on June 11, 2004, the Series B Credit Agreement expires on March 30, 2004, and the Series E Liquidity Agreement expires on December 5, 2005.

**4. Annexed District Bonds Assumed**

The City has assumed general tax obligation debt of annexed districts. The payment dates and maturities vary, but in general, interest is payable semi-annually and principal is payable annually. Interest rates range from 3.75% to 12.27%, and the final maturity date is October 1, 2021.

**5. Certificates of Obligation**

Since 1988, the city has issued Certificates of Obligation each year to provide for the purchase of equipment utilized in general City operations including, without limitation, police vehicles, maintenance vehicles and equipment, computer equipment, and costs associated with demolishing dangerous structures. Each year the City is obligated to levy, assess, and collect ad valorem taxes sufficient to pay principal and interest on the certificates payable semi-annually until maturity. Generally, these certificates are not subject to redemption prior to final maturity on March 1, 2022.

**6. HUD Section 108 Loan**

The City's Housing Department has borrowed money from HUD which it loans to the Houston Small Business Development Corp. (HSBDC). HSBDC in turn makes small business loans to under-served areas of the community. In 2003 new loans totaled \$11,460,000. The smallest loan was for \$15,000, the largest for \$8,690,000. The beginning balance of monies owed to HUD was \$15,260,000 and ending balance was \$25,810,000. The change in balance was accomplished by additional financing from HUD and paydown on existing loans.

**7. Airport System Revenue Bonds**

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

The City Purchased a Municipal Debt Service Reserve Fund Policy concurrently with the issuance of the Airport System Subordinate Lien Revenue Bonds Series 2001A, 2002A, and 2002B. The reserve policy unconditionally guarantees the payment of principal and interest to all current outstanding airport system subordinate lien issues as of the dates of the Series 2001A, 2002A, and 2002B Bonds. The reserve policies terminate upon final maturities on various dates in the future. Each of the draws made against the reserve policy shall bear interest at the Prime Rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw.

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**8. Airport System Commercial Paper**

Airport System Senior Lien Commercial Paper Notes (the "Notes") have been authorized for \$150 million Series A and B, and \$150 million Series C to establish, improve, enlarge, extend and repair the City's Airport System, acquire land, and pay interest and cost of issuance of the Notes. As of June 30, 2003, no Airport Commercial Paper is outstanding.

The Series A & B Notes are collateralized by revolving credit agreements convertible to direct pay letters of credit issued by a bank, and a lien on the net revenues of the Airport System. The Letters of Credit will terminate on January 11, 2005 for Series A & B.

**9. Convention and Entertainment Facilities Bonds**

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

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

The City of Houston Convention Center Revenue Bonds, Series 2001C-1 and 2002C-2, were initially issued as 35-day auction rate securities with staggered reset dates and are subject to conversion at the option of the City and subject to certain restrictions, to bonds that bear interest at rates other than auction rates. Notwithstanding the establishment of the applicable Auction Rate, the maximum interest rate permitted under the ordinance is 10%. Interest rates in effect at year-end, including the effects of dealer fees and insurance, were 1.43% on the 2001C-1 bonds and 1.36% on the 2002C-2 bonds.

**10. Convention and Entertainment Hotel and Parking Revenue Commercial Paper**

Hotel Occupancy Tax and Parking Revenue Commercial Paper Notes Series A have been authorized for \$75 million to finance the costs of site acquisition, construction, and improvements for convention center facilities. The notes are issued as subordinate lien debt. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Upon maturity, the Notes will be remarketed by the commercial paper dealer or extinguished with long-term debt. The Commercial Paper Notes are collateralized by a Letter of Credit that expires on January 16, 2005. During fiscal year 2003 the weighted average interest rate for the Notes, including all fees, was 1.46%.

**11. Water and Sewer System Commercial Paper**

Water and Sewer System Commercial Paper Notes, Series A and Series B, have been authorized for \$700 and \$200 million, respectively to finance the costs of additions, improvements and extensions to the City's Water and Sewer System. The notes are issued as subordinate lien debt. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Upon maturity, the Notes will be remarketed by the commercial paper dealer or extinguished with long-term debt. The Commercial Paper Notes are supported by a revolving credit agreement that expires on July 7, 2004 for Series A. The City does not plan to issue Notes under Series B. During fiscal year 2003 the weighted average interest rate for the Series A Notes was 1.44%.

**12. Water and Sewer System Prior and Junior Lien Revenue Bonds**

These bonds are paid solely from a lien on the net water and sewer system revenues, which must total 120% of the current year debt service for the prior lien bonds, plus 110% of the current debt service requirements on the junior lien bonds. During fiscal year 2003 the City refunded or retired all of the outstanding prior lien bonds. The final maturity date for the remaining junior lien bonds is December 1, 2033.

**13. Coastal Water Authority (CWA)**

The amount of the contract payable relating to the CWA represents the outstanding principal balance of \$181,670,095 at June 30, 2003 of City of Houston Water Conveyance System Contract Certificates of Participation, Series 1993, representing contract payments owed by the City to pay debt service on bonds issued by CWA, plus \$46,520,000 of CWA Revenue Refunding Bonds, Series 1999, issued by CWA, a governmental agency of the State of Texas, to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City issued the Certificates and endorsed the bonds and is unconditionally obligated to pay from the gross operating revenues of the City's water system all debt service payments on these Certificates and Bonds, as well as amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The bonds mature through December 15, 2025.

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**14. Trinity River Authority (TRA)**

The amount of the contract payable to the TRA represents the outstanding principal balance at June 30, 2003 of certain revenue bonds issued by TRA, a governmental agency of the State of Texas, to finance construction of a dam and reservoir on the Trinity River near Livingston, Texas. Pursuant to a contract with TRA, the City has endorsed the bonds associated only with this project and is unconditionally obligated to pay from the gross operating revenues of the City's water system maintenance and operating expense of the reservoir and amounts necessary to restore any deficiencies in funds required to be accumulated under the TRA bond resolutions.

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

**15. Houston Area Water Corporation (HAWC)**

The Houston Area Water Corporation (HAWC) Series 2002 Bonds are special obligations of the HAWC. The Bonds were issued to provide financing for the acquisition of rights-of-way and real property interests, and the design, construction and equipping of the Northeast Water Purification Plant and a water conveyance system, along with all extensions, additions, enlargements, improvements and modifications thereto ("the City Project"), to repay interim financing of the City Project, to fund all or a portion of the amount equal to the Reserve Fund Requirement, to fund capitalized interest and to pay costs of issuance relating to the Series 2002 Bonds.

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

**16. Other Contracts**

On June 20, 1967 the City, TRA, and Chambers-Liberty Counties Navigation District contracted with the United States of America to have the U.S. Army Corps of Engineers build a salinity control barrier and recreation facilities at Wallisville Lake. Because of legal actions, construction was blocked for many years. The project was placed into operation as a salinity control barrier in 1999, and final completion was in April 2003. The City's share of the project cost was \$10,580,707, which will be paid to the U.S. government over 50 years at 3.222% interest beginning in January 2004. Payments will be made only after funding all maintenance and operation costs and debt service payments for the water and sewer system, including required reserves.

In April 2000 the City, Brazos River Authority ("BRA"), and the Texas Water Development Board ("TWDB") entered into an agreement to develop the Allen's Creek water supply reservoir in Fort Bend County as a regional water supply. TWDB committed to provide up to \$20,000,000, or up to 50% of funding, to provide for construction of the project. The City and BRA agreed to purchase TWDB's ownership share in future years. In 2003 the TWDB paid \$14 million for site acquisition for the project. The City will purchase TWDB's share. Interest payments on the lease-purchase will begin in 2005 at an average rate of 5.85%. Interest costs over the first eight years will be partially deferred to later years. Principal payments will begin in 2022, and the final principal payment on the contract will be made in 2036.

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

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

Year Ending June 30	General Obligation Bonds		Public Improvement Bonds		General Obligation Commercial Paper	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,000	\$ 93	\$ 105,515	\$ 82,774	\$ 350,300	\$ 3,644
2005	1,365	34	119,995	74,963	65,000	-
2006	-	-	133,360	68,795	-	-
2007	-	-	134,845	61,408	-	-
2008	-	-	121,510	53,711	-	-
2009-2013	-	-	435,690	182,565	-	-
2014-2018	-	-	316,670	85,177	-	-
2019-2023	-	-	121,215	21,224	-	-
2024-2028	-	-	13,835	1,046	-	-
	<u>\$ 2,365</u>	<u>\$ 127</u>	<u>\$ 1,502,635</u>	<u>\$ 631,663</u>	<u>\$ 415,300</u>	<u>\$ 3,644</u>

Year Ending June 30	Annexed District Bonds		Tax and Revenue Certificates of Obligation		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 4,972	\$ 2,548	\$ 2,440	\$ 1,568	\$ 464,227	\$ 90,627
2005	4,870	1,892	2,985	1,460	194,215	78,349
2006	3,385	1,654	4,245	1,328	140,990	71,777
2007	3,515	1,479	1,590	1,152	139,950	64,039
2008	3,735	1,294	1,645	1,084	126,890	56,089
2009-2013	14,740	3,860	11,729	9,018	462,159	195,443
2014-2018	6,795	825	8,060	2,937	331,525	88,939
2019-2023	520	73	6,834	789	128,569	22,086
2024-2028	-	-	-	-	13,835	1,046
	<u>\$ 42,532</u>	<u>\$ 13,625</u>	<u>\$ 39,528</u>	<u>\$ 19,336</u>	<u>\$ 2,002,360</u>	<u>\$ 668,395</u>

**2. HUD Section 108 Loans**

Year Ending June 30	Section 108 Loans		
	Principal	Interest	Total Future Requirements
2004	\$ 945	\$ 1,081	\$ 2,026
2005	1,470	1,276	2,746
2006	1,515	1,214	2,729
2007	1,680	1,143	2,823
2008	1,980	1,061	3,041
2009-2013	9,170	3,828	12,998
2014-2018	5,240	1,906	7,146
2019-2023	3,810	499	4,309
	<u>\$ 25,810</u>	<u>\$ 12,008</u>	<u>\$ 37,818</u>

**CITY OF HOUSTON, TEXAS**  
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**3. Business-type Funds (adjusted for Capital Appreciation and Deferred Interest Bonds reclassification of principal & interest) (in thousands):**

Year Ending June 30	Convention and Entertainment Facilities Revenue Bonds		Convention and Entertainment Facilities Commercial Paper		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 6,265	\$ 20,714	\$ -	\$ 246	\$ 6,265	\$ 20,960
2005	6,590	20,596	22,500	-	29,090	20,596
2006	13,680	19,877	-	-	13,680	19,877
2007	14,775	19,253	-	-	14,775	19,253
2008	17,540	18,402	-	-	17,540	18,402
2009-2013	115,775	75,152	-	-	115,775	75,152
2014-2018	116,385	64,941	-	-	116,385	64,941
2019-2023	94,642	89,434	-	-	94,642	89,434
2024-2028	98,384	113,220	-	-	98,384	113,220
2029-2033	112,483	127,671	-	-	112,483	127,671
2034-2038	24,065	25,778	-	-	24,065	25,778
	<u>\$ 620,584</u>	<u>\$ 595,038</u>	<u>\$ 22,500</u>	<u>\$ 246</u>	<u>\$ 643,084</u>	<u>\$ 595,284</u>

**Airport System Revenue**

Year Ending June 30	Bonds		Total Future Requirements
	Principal	Interest	
2004	\$ 17,985	\$ 102,251	\$ 120,236
2005	18,865	101,256	120,121
2006	26,690	100,393	127,083
2007	28,285	98,772	127,057
2008	29,725	97,604	127,329
2009-2013	231,705	457,980	689,685
2014-2018	301,320	395,591	696,911
2019-2023	391,325	315,534	706,859
2024-2028	506,475	213,602	720,077
2029-2033	656,990	79,207	736,197
	<u>\$ 2,209,365</u>	<u>\$ 1,962,190</u>	<u>\$ 4,171,555</u>

Year Ending June 30	Water and Sewer System		Water and Sewer System Commercial Paper		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 54,528	\$ 177,944	\$ -	\$ 3,893	\$ 54,528	\$ 181,837
2005	76,746	165,519	415,250	-	491,996	165,519
2006	89,356	162,149	-	-	89,356	162,149
2007	85,963	163,997	-	-	85,963	163,997
2008	91,893	160,723	-	-	91,893	160,723
2009-2013	452,787	823,409	-	-	452,787	823,409
2014-2018	759,055	513,253	-	-	759,055	513,253
2019-2023	637,418	570,223	-	-	637,418	570,223
2024-2028	691,229	518,670	-	-	691,229	518,670
2029-2033	488,593	190,557	-	-	488,593	190,557
2034-2038	-	-	-	-	-	-
	<u>\$ 3,427,568</u>	<u>\$ 3,446,444</u>	<u>\$ 415,250</u>	<u>\$ 3,893</u>	<u>\$ 3,842,818</u>	<u>\$ 3,450,337</u>

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**Houston Area Water Corporation**

Year Ending June 30	Total Future Requirements		
	Principal	Interest	Requirements
2004	\$ -	\$ 6,710	\$ 6,710
2005	-	6,710	6,710
2006	2,365	6,710	9,075
2007	2,485	6,592	9,077
2008	2,585	6,492	9,077
2009-2013	14,730	30,653	45,383
2014-2018	19,100	26,285	45,385
2019-2023	24,855	20,529	45,384
2024-2028	32,050	13,329	45,379
2029-2033	32,090	4,215	36,305
	<u>\$ 130,260</u>	<u>\$ 128,225</u>	<u>\$ 258,485</u>

Year Ending June 30	Coastal Water Authority		Trinity River Authority		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
	2004	\$ 14,105	\$ 14,874	\$ 2,000	\$ 596	\$ 16,105
2005	15,460	12,510	2,000	471	17,460	12,981
2006	16,505	11,494	2,000	346	18,505	11,840
2007	18,150	10,395	2,000	221	20,150	10,616
2008	19,225	9,211	2,000	96	21,225	9,307
2009-2013	71,680	31,483	-	-	71,680	31,483
2014-2018	45,840	11,784	-	-	45,840	11,784
2019-2023	15,770	4,911	-	-	15,770	4,911
2024-2028	11,455	878	-	-	11,455	878
2029-2033	-	-	-	-	-	-
	<u>\$ 228,190</u>	<u>\$ 107,540</u>	<u>\$ 10,000</u>	<u>\$ 1,730</u>	<u>\$ 238,190</u>	<u>\$ 109,270</u>

Other Contracts Year Ending June 30	U.S. Army Corps of Engineers		Texas Water Development Board		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
	2004	\$ 415	\$ -	\$ -	\$ -	\$ 415
2005	88	327	-	164	88	491
2006	91	325	-	164	91	489
2007	94	321	-	246	94	567
2008	97	319	-	327	97	646
2009-2013	532	1,545	-	3,356	532	4,901
2014-2018	623	1,454	-	6,806	623	8,260
2019-2023	730	1,347	1,255	6,092	1,985	7,439
2024-2028	855	1,222	3,830	3,309	4,685	4,531
2029-2033	1,002	1,075	5,090	2,054	6,092	3,129
2034-2038	1,175	902	3,825	457	5,000	1,359
2039-2043	1,376	700	-	-	1,376	700
2044-2048	1,613	463	-	-	1,613	463
2049-2053	1,890	186	-	-	1,890	186
	<u>\$ 10,581</u>	<u>\$ 10,186</u>	<u>\$ 14,000</u>	<u>\$ 22,975</u>	<u>\$ 24,581</u>	<u>\$ 33,161</u>



**CITY OF HOUSTON, TEXAS**  
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**E. Debt Issuances and Refundings**

Throughout its history, the City has issued refunding bonds from time to time when there has been an operational or economic gain for the City. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt, including the debt balances refunded during fiscal 2003 described below, has been removed from the City's books.

On August 15, 2002, the City issued \$724,505,000 in Airport System Subordinate Lien Revenue Bonds. The Bonds were issued for the purpose of improving, enlarging, extending and repairing the City's Airport System, refunding on a current basis the City's outstanding \$30,000,000 Senior Lien Commercial Paper, and paying costs of issuance and refunding. The bonds are composed of \$200,050,000 Series A, Alternative Minimum Tax ("AMT") bonds, \$274,455,000, Series B, Non-AMT bonds, \$100,000,000 Series C, Auction Rate, AMT bonds, \$75,000,000 Series D1, auction rate, AMT bonds, and \$75,000,000 Series D2, auction rate, AMT bonds. Issued at rates ranging from 5.0 to 5.625%, Series A and B are fixed rate with serial and term bonds. Series C and Series D1 and D2 were initially issued as 35-day auction rate securities with staggered reset dates. Rates in effect at year-end, including the effects of dealer and auction fees, were 1.42% on the auction rate securities. The Series 2002 Bonds are special obligations of the City that, together with the Outstanding Subordinate Lien Bonds are payable from and equally and ratably secured by a lien on the net revenues of the Airport System.

On September 5, 2002, the City issued \$309,110,000 in Water and Sewer System Junior Lien Forward Refunding Bonds, Series 2002B. The Bonds were issued to refund \$11,360,000 Series 1992A Water and Sewer Junior Lien Bonds, \$86,885,000 Series 1992C Water and Sewer Junior Lien Bonds, and \$216,910,000 Series 1992B Water and Sewer Prior Lien Bonds. By refunding the Prior Lien Bonds, the City was also relieved of the more restrictive covenants of the prior lien. The bonds were issued at rates of 5.0 to 5.75%. Proceeds were used to purchase an escrow consisting of U.S. Government State and Local Government Securities for all future debt service payment of the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$19,413,442. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This current refunding was undertaken to lower the total debt service payments over the next 15 years by \$17,273,000 and resulted in an economic gain of \$11,932,000.

On September 24, 2002, the City issued \$12,400,000 Tax and Revenue Certificates of Obligation Series 2002A. Proceeds from the sale of the certificates will be used for acquisition, construction, installation, and equipping of a Public Works project designated as the Cotswold Project. The certificates were issued at stated rates of 3.50 to 5.00%.

On December 17, 2002, the City issued \$247,285,000 Public Improvement Refunding Bonds, Series 2002. The Bonds were issued to refund \$67,000,000 General Obligation Commercial Paper Series B, \$35,000,000 General Obligation Commercial Paper Series C, \$90,300,000 Series 1993D Public Improvement Bonds, \$18,420,000 Series 1994A Public Improvement Bonds, and \$45,875,000 for certain series of tax supported municipal utility district bonds that have become assumed obligations of the City. The Bonds were issued at rates of 2.75 to 5.25%. Proceeds were used to purchase an escrow consisting of U.S. Government State and Local Government Securities for all future refunded debt service payments. The refunding of the commercial paper notes will result in permanent fixed rate financing for permanent improvements. This advance refunding was undertaken to lower interest rate exposure and to lower the debt service payments over the next 16 years by \$9,985,000 and resulted in an economic gain of \$9,729,000. The reacquisition price exceeded the net carrying amount of the old debt by \$4,905,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt.

On March 18, 2003 the City issued \$40,725,000 in Water and Sewer System Junior Lien Revenue Refunding Bonds, Series 2003A. The Bonds were issued to refund and defease \$41,385,000 of Water and Sewer Junior Lien Bonds, Series 1988, and to pay cost of issuance of the Series 2003A Bonds. The Bonds were issued at rates of 2.75 to 5.0%. The reacquisition price exceeded the net carrying amount of the old debt by \$479,721. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This current refunding was undertaken to lower the total debt service payments over the next 30 years by \$1,734,000 and resulted in an economic gain of \$1,624,000.

**F. Bond Compliance Requirements**

The revenue bond ordinances require that during the period in which the bonds are outstanding the City must create and maintain certain accounts or "funds" to receive the proceeds from the sale of the revenue bond and to account for the revenues (as defined), which are generally pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein. The City is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 4%. During 2003, the City has substantially complied with the requirements of all revenue bond ordinances and related bond restrictions.

**CITY OF HOUSTON, TEXAS**  
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**G. Voter Authorized Obligations**

On November 4, 1997, voters of the City authorized the issuance of \$545,000,000 of Public Improvement Bonds. On March 4, 1998, City Council passed ordinance 98-158, stipulating that \$100,000 of the \$545,000,000 be issued as General Obligation Commercial Paper Series A. In fiscal year 2000, Ordinance 99-199 stipulated \$100,000,000, and Ordinance 99-949 stipulated \$108,700,000 be issued as General Obligation Commercial Paper Series A. In fiscal year 2001, Ordinance 2000-480 stipulated that \$133,000,000 be issued as General Obligation Commercial Paper Series A. In fiscal year 2002 Ordinance 2001-664 stipulated that \$103,300,000 be issued as General Obligation Commercial Paper Series B. No further authorization is available under the November 4, 1997 election.

On November 4, 2001, voters of the City authorized the issuance of \$776,000,000 of Public Improvement Bonds. On June 18, 2002, City Council passed an ordinance stipulating that \$165,000,000 of the \$776,000,000 be issued as General Obligation Commercial Paper Series D.

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

**H. Legal Debt Margin**

At June 30, 2003 the City's legal debt limit was 10% of assessed property valuation totaling \$112,553,521,000. The City's legal debt margin was \$7,161,834,000.

**Note 9: Leases**

**A. Operating Leases**

**1. City as Lessee**

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

<u>Year ended June 30</u>	<u>Operating Lease Payments</u>
2004	\$ 11,403
2005	6,408
2006	4,762
2007	3,254
2008	2,186
2009-2013	873
2014-2018	756
2019-2023	756
2024-2028	756
2029-2033	756
Total	<u>\$ 31,910</u>

**CITY OF HOUSTON, TEXAS**  
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**2. City as Lessor**

The Airport System is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are noncancellable operating leases with fixed minimum rentals and noncancellable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Minimum guaranteed income on such noncancellable operating leases is as follows (in thousands):

<u>Year Ended June 30</u>	<u>Operating Leases Minimum Rental Income</u>
2004	\$ 32,875
2005	23,474
2006	17,286
2007	17,111
2008	16,988
2009-2013	82,193
2014-2018	71,814
2019-2023	70,004
2024-2028	60,746
2029-2033	10,118
2034-2038	9,489
2039-2043	9,971
Total	<u>\$ 422,069</u>

The contingent income associated with these noncancelable operating leases was \$13,318,235 in Fiscal Year 2003. In addition, income is earned from certain noncancellable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Such income for Fiscal Year 2003 was \$128,398,838.

**B. Capital Leases**

**1. The City as Lessee**

The City of Houston entered into a capital lease for the Houston Emergency Center. The City's annual payment is \$4,347,000 and is shared by the City's Police Department and the Fire Department. .

The assets acquired through the capital lease are as follows (in thousands):

	<u>Governmental Activities</u>
Asset:	
Land	\$ 3,200
Building	50,179
Total Assets	<u>53,379</u>
Less: Accumulated Depreciation	(1,677)
Net Total	<u>\$ 51,702</u>

**CITY OF HOUSTON, TEXAS**  
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2. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows (in thousands):

<u>Year ended June 30</u>	<u>Capital Lease Payments</u>
2004	4,339
2005	4,339
2006	4,339
2007	4,339
2008	4,339
2009-2013	21,694
2014-2018	21,694
2019-2023	21,694
2024-2027	17,352
Total minimum lease payments	104,129
Less: Amount representing Interest	(50,757)
Present value of minimum lease payments	\$ 53,372

**Note 10: Pension Plans**

**A. Plan Descriptions**

The City has three single employer defined benefit pension plans (Firefighters' Relief and Retirement Fund, Municipal Employees' Pension System, and the Police Officers' Pension System) which cover substantially all of its employees. These pension plans were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243g, 6243g-4, respectively), which establish the various benefit provisions. All plans provide for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes. Additionally, these laws provide that employer funding be based on periodic actuarial valuations or statutory approved amounts. All pension plans provide service, disability, death, and vesting benefits. The specific summary plan description is available at the plan offices listed in footnote 1.

**B. Actuarially Determined Contribution Requirements and Contributions Made**

The City's funding policies provide for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll, except for the police officers pension system, which has a limited statutory determined level of employer contributions. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The firefighters' and municipal pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 40 years from January 1, 1983 and the police pension uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability over 30 years (constant).

The reported contributions to the pension funds for the year ended June 30, 2003, were different from the actuarially determined requirements based on July 1, 2001 actuarial valuation for all three plans. Contributions are as follows:

<u>Percentage of Payroll</u>	<u>Firefighters</u>	<u>Municipal</u>	<u>Police</u>
City of Houston normal cost	22.3%	10.0%	18.7%
Additional statutory requirement	0.5%	-	-
Amortization of unfunded actuarial accrued liability (surplus)	(7.4%)	7.7%	1.8%
Required employer contribution rate	15.4%	17.7%	20.5%
Employer contribution made	15.4%	10.0%	12.4%
Employee contribution made	7.7%	4.0%	8.75%
 <b>Contribution Amounts (in thousands)</b>			
Net contribution required	\$ 37,185	\$ 100,070	\$ 81,209
Total city contribution	\$ 27,989	\$ 40,622	\$ 34,716
Total employee contribution	13,995	23,762	24,008
Total contribution	\$ 41,984	\$ 64,384	\$ 58,724

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

The annual pension cost associated with the City of Houston's three pension funds for the current year are as follows:

	<b>Houston Firefighters' Pension</b>	<b>Houston Municipal Employees' Pension</b>	<b>Houston Police Officers' Pension</b>
Annual required contribution	\$ 23,190	\$ 76,308	\$ 57,201
Interest on net pension obligation	(4,411)	4,787	(271)
Adjustment to annual required contribution	3,890	(4,407)	192
Annual pension cost	<u>22,669</u>	<u>76,688</u>	<u>57,122</u>
Contribution made	27,989	40,622	34,716
Change in net pension (obligation) asset	5,320	(36,066)	(22,406)
Net pension (obligation) asset beginning	51,892	(56,320)	3,185
Net pension (obligation) asset end of year	<u>\$ 57,212</u>	<u>\$ (92,386)</u>	<u>\$ (19,221)</u>

**D. Houston Firefighters' Pension System**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Asset</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2001	\$15.6	157%	\$38.5	11.0%
2002	\$15.0	184%	\$51.9	9.9%
2003	\$22.7	121%	\$57.2	14.9%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation are as follows:

Valuation date	July 1, 2002
Actuarial cost method	Entry age normal cost
Amortization Method	Level percent of payroll, ending December 31, 2022, cost closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, net of expenses
Payroll growth rate, attributable entirely to inflation	4.0%
Annual increase attributable to seniority/merit	0% to 6%
Cost of living adjustment	3% annually

**CITY OF HOUSTON, TEXAS**  
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**E. Houston Municipal Pension System Information**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Obligation</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2001	\$45.3	94.0%	\$53.8	9.8%
2002	\$43.3	95.0%	\$56.3	9.5%
2003	\$76.7	53.0%	\$92.3	17.7%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation are as follows:

Valuation date	July 1, 2002
Actuarial cost method	Entry age
Amortization method	Level percentage, closed.
Remaining amortization period	20 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
investment rate of return	8.5%, net of expenses
Payroll growth factor	4.5%
Projected salary increases	4.5%, constant annual rate
General inflation rate	4.0%

**CITY OF HOUSTON, TEXAS**  
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**F. Houston Police Officer's Pension System Information**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension/Asset (Obligation)</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2001	\$42.2	76.0%	\$0.5	16.3%
2002	\$30.0	109.0%	\$3.2	11.3%
2003	\$57.1	61.0%	(\$19.2)	20.5%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial valuation performed as of July 1, 1998 was adopted by the Board of Trustees for funding purposes effective July 1, 1999. Additional information as to the latest actuarial valuation follows:

Valuation date	July 1, 2002
Actuarial cost method	Entry age
Amortization Method	Level percent of payroll Amortized over 30 years
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Payroll growth rate, attributable entirely to inflation	4.0 %
Annual increase attributable to seniority/merit	0% to 5%
Annual cost of living adjustment	3.0% minimum, 8.0% maximum
Projected salary increases	4.0-9.0%

**Note 11: Other Employee Benefits**

**A. Post-Retirement Health Insurance Benefits**

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care contributions incurred by the City amounted to approximately \$30,206,205 for the year ended June 30, 2003. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2003, there were 6,552 retirees eligible to receive benefits.

**B. Health Benefits Internal Service Fund**

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self insured with specific individual aggregate stop loss features Point of Service Plan (POS) and an Out-Of-Area Plan (OOA). Specific and aggregate stop loss insurance is provided for the POS and OOA plan of \$300,000 and approximately \$6,000,000 based on enrollment, respectively. Premiums paid for current employees to third party administrators totaled approximately \$107,346,321 for the year ended June 30, 2003.

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The City also provides 1 times salary of basic life insurance, with a minimum of \$15,000, at no cost to the employee. The employee at no cost to the City may then obtain additional life insurance up to four times their annual salary. The current costs for active employees for both basic and voluntary life insurance totaled \$5,685,746 for the year ended June 30, 2003.

<b>POS and OOA</b>		
<b>Schedule of Changes in Liability</b>		
<b>(in thousands)</b>		
	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Beginning actuarial estimate of claims liability, July 1	\$ 1,600	\$ 1,380
Incurred claims for fiscal year	6,315	6,748
Payments on claims	(6,682)	(7,661)
Actuarial adjustment	(424)	1,133
	\$ 809	\$ 1,600

**C. Long-Term Disability Plan**

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

<b>Schedule of Changes in Liability</b>		
<b>(in thousands)</b>		
	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Beginning actuarial estimate of claims liability, July 1	\$ 4,572	\$ 4,140
Incurred claims for fiscal year	1,143	1,324
Payments on claims	(755)	(586)
Actuarial adjustment	302	(306)
	\$ 5,262	\$ 4,572

**D. Deferred Compensation Plan**

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



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**E. Workers' Compensation Self-Insurance Plan**

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

At June 30, 2003 the City has an accumulated liability in the amount of \$56.5 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the Statement of Net Assets and Enterprise Funds. The amount of liability is based on the estimate of an independent actuary.

<b>Schedule of Changes in Liability</b>		
<b>(in thousands)</b>		
	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Beginning actuarial estimate of claims liability, July 1	\$ 55,996	\$ 49,565
Incurred claims for fiscal year	12,147	11,955
Payments on claims	(21,086)	(22,728)
Actuarial adjustment	9,405	17,204
Ending actuarial estimate of claims liability, June 30	\$ 56,462	\$ 55,996

**Note 12: Interfund Transactions**

**A. Transfers**

Transfers during the year ended June 30, 2003, were as follows (in thousands):

<b>Transferred from:</b>	<b>Transferred to:</b>					
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Convention &amp; Entertainment Facilities</b>	<b>Total Transfers Out</b>
General Fund	\$ -	\$ 13,859	\$ 178,000	\$ 119	\$ -	191,978
Nonmajor Funds	16,500	-	542	21	6,767	23,830
Capital Projects	3,840			-	-	3,840
Water & Sewer	29,100	40,439	23,811	-	-	93,350
Total Transfers In	\$ 49,440	\$ 54,298	\$ 202,353	\$ 140	\$ 6,767	\$ 312,998

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

**B. Transfers to Component Units**

Transfers to the Cultural Arts Council of Houston from the Convention and Entertainment Facilities during the year ended June 30, 2003 totaled \$7,899,900.

**C. Interfund Charges**

The General Fund charges the Water and Sewer System, Airport System, Convention and Entertainment Facilities, Capital Project, Sign Administration, Auto Dealer's and Cable Television Funds for services provided by the General Fund on behalf of these funds. Such charges totaled \$89,812,000 for the year ended June 30, 2003, and are recorded as revenue in the General Fund and as expense, expenditure or capital assets in the funds assessed.

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

Included in the Fiscal Year 2003 total are charges to the funds for direct and indirect expenses as shown below (in thousands):

	<b>Airport System</b>	<b>Convention &amp; Entertainment Facilities</b>	<b>Water &amp; Sewer</b>	<b>Other Funds</b>	<b>Total</b>
General Services	\$ 3,493	\$ 333	\$ 6,877	\$ 5,038	\$ 15,741
Fire Services	10,447	-	-	-	10,447
Police Services	19,963	-	-	-	19,963
Engineering Services	-	825	10,342	8,739	19,906
Fleet Maintenance	173	25	1,457	4,010	5,665
Legal	1,743	629	4,672	483	7,527
Other	247	-	4,538	5,778	10,563
<b>Total</b>	<b>\$ 36,066</b>	<b>\$ 1,812</b>	<b>\$ 27,886</b>	<b>\$ 24,048</b>	<b>\$ 89,812</b>

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

The composition of interfund balances as of June 30, 2003 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water & Sewer	860
	Grants Revenue	1,024
	Nonmajor Governmental Funds	2,806
	Capital Projects Fund	3,628
	Airport System	344
	Convention and Entertainment Facilities	481
	Health Benefits Fund	422
		<u>\$ 9,565</u>
Grants Revenue	General Fund	126
		<u>\$ 126</u>
Debt Service Fund	Capital Project Funds	24
		<u>\$ 24</u>
Capital Projects Fund	Grants	576
		<u>\$ 576</u>
Airport System	Health Benefits Fund	\$ 22
		<u>\$ 22</u>
Convention and Entertainment Facilities	General Fund	\$ 176
	Health Benefits Fund	\$ 2
		<u>\$ 178</u>
Water and Sewer	Health Benefits Fund	51
		<u>\$ 51</u>
Health Benefis Fund	General Fund	17
		<u>\$ 17</u>
Nonmajor Governmental Funds	General Fund	11
	Grants	82
	Health Benefits Fund	21
	Nonmajor Governmental	32
		<u>\$ 146</u>

The interfund balances are primarily due to charges for services between funds during the fiscal year and settled shortly after year end.

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Note 13: Commitments and Contingencies**

**A. Litigation and Claims**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotional practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; and claims involving property tax assessments and various other liability claims. Alleged damages in the lawsuits exceed \$181 million. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. There is other threatened litigation for which an amount cannot be determined. The City typically utilizes the General Fund to liquidate claims and judgements.

In the Statement of Net Assets, the City has recognized a liability of \$20.4 million for potential litigation losses arising from various lawsuits.

**B. Environmental Liabilities**

The City is aware of various sites contaminated by asbestos or other hazardous materials. The City of Houston (inclusive of Airport System Fund, the Water and Sewer System Fund) has recorded accrued liabilities of \$8.75 million, to be used for asbestos and petroleum storage tanks removal, and remediation.

**C. Commitments for Capital Facilities**

At June 30, 2003, the City had appropriated but not yet spent from Capital Projects and Enterprise Funds approximately \$1,009,119,000 for capital projects.

The City leased a tract of land for 30 years with a 30 year renewal option for \$100 per year to The Houston Music Hall Foundation. The Houston Music Hall Foundation is constructing on the site the New Music Hall to be named the Hobby Center for the Performing Arts. Substantial completion did occur by October 31, 2002, as required by the agreement, and final completion must occur within five years thereafter.

The Music Hall was granted and conveyed to the City. The City is obligated to pay from parking revenues \$1 million per year for 30 years beginning on the commencement of the lease. The City's annual obligation is secured by a pledge of the parking revenues from the Civic Center and Tranquility Park Parking Garages equal to \$1,200,000 per year for 30 years.

**D. Risk Management**

The City is self-insured for claims pertaining to third party liability, unemployment and workers' compensation. The City carries public employee liability insurance to comply with City ordinance and purchases commercial property insurance with a per occurrence loss limit of \$300 million. Such insurance provides a \$2.5 million per occurrence deductible except for: 2% of the damaged insured value for windstorm or hail from a named storm, subject to \$2.5 million minimum and a \$10 million maximum; \$5 million deductible for flood. Although no losses were sustained in excess of the \$300 million per occurrence loss limit in the last 4 years, Tropical Storm Allison caused damages in excess of the \$5 million sub-limit to locations in the 100-year flood plain (Flood Zone A). Emergency Management is coordinating a claim to FEMA for the amount not covered by insurance. Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims, incurred but not yet reported, actuarial reports and historical analysis.

All claims are accounted for in the Government-wide Statement of Net Assets. Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

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

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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

	<b>Unemployment Claim Activity</b>	
	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Claims for fiscal year	454	608
Payments on claims	\$ 400,042	\$ 528,960

**E. Federal and State**

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

**Note 14: Related Organization Transactions**

**A. Metropolitan Transit Authority (“Metro”)**

The City and Metro have an interlocal agreement under which Metro funded \$10.0 million of revenue for street maintenance and traffic control during the fiscal year ended June 30, 2003. The money is accounted for in the general fund.

**B. Trinity River Authority (“TRA”)**

As described in Note 6C, the City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the fiscal year ended June 30, 2003 the City paid \$2.2 million for debt service and \$2.1 million for maintenance and operating expenses under the terms of the contract.

**C. Coastal Water Authority (“CWA”)**

The City has a long-term contract with Coastal Water Authority (CWA) for the acquisition of water. During the fiscal year ended June 30, 2003, the City paid CWA \$28.9 million for debt service and \$10.3 million for maintenance and operating expenses.

**Note 15: Conduit Debt Obligations**

To provide for airport facilities, the City has issued eight series of Special Facility Revenue Bonds. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

At June 30, 2003, the Special Facility Revenue Bonds outstanding aggregated was \$683,365,000.

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Note 16: Major Discretely Presented Component Units**

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

**Net Assets**  
**Major Component Units - Discretely Presented Governmental**  
**June 30, 2003**  
(in thousands)

	<b>Cultural Arts Council of Houston</b>	<b>Midtown Redevelopment Authority</b>	<b>Greater Greenspoint Redevelopment Authority</b>	<b>Uptown Redevelopment Authority</b>
Cash, receivable and other current assets	\$ 1,863	\$ 11,169	\$ 19,409	\$ 4,720
Due from primary government	-	-	-	-
Noncurrent assets	-	968	232	481
Capital assets, net of accumulated depreciation	69	11,933	-	-
Total assets	<u>1,932</u>	<u>24,070</u>	<u>19,641</u>	<u>5,201</u>
Current liabilities	1,136	3,137	1,112	4,893
Due to primary government	-	-	-	-
Long-term liabilities	-	27,850	19,360	23,840
Total liabilities	<u>1,136</u>	<u>30,987</u>	<u>20,472</u>	<u>28,733</u>
Net assets				
Invested in capital assets, net of related debt	-	-	-	-
Restricted	-	4,490	11,475	-
Unrestricted (deficit)	796	(11,407)	(12,306)	(23,532)
Total net assets (deficit)	<u>\$ 796</u>	<u>\$ (6,917)</u>	<u>\$ (831)</u>	<u>\$ (23,532)</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

<b>Southwest Houston Redevelopment Authority</b>	<b>Library Board</b>	<b>Parks Board</b>	<b>Nonmajor Component Units</b>
\$ 1,199	\$ 773	\$ 2,643	\$ 23,281
60	-	28	-
9,582	14,987	5,847	5,947
-	-	5,606	8,436
<u>10,841</u>	<u>15,760</u>	<u>14,124</u>	<u>37,664</u>
6,102	54	214	20,885
-	-	-	-
13,275	-	189	44,228
<u>19,377</u>	<u>54</u>	<u>403</u>	<u>65,113</u>
-	-	1,618	1,509
8,619	14,194	10,363	3,505
(17,155)	1,512	1,740	(32,463)
<u>\$ (8,536)</u>	<u>\$15,706</u>	<u>\$ 13,721</u>	<u>\$ (27,449)</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Change in Net Assets**  
**Major Component Units - Discretely Presented Governmental**  
**For the Year Ended June 30, 2003**  
(in thousands)

<b>Component Units</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Cultural Arts Council of Houston/Harris County</b>
Cultural Arts Council of Houston/Harris County	\$ 8,895	\$ -	\$ 429	\$ (8,466)
Midtown Redevelopment Authority	6,584	-	-	-
Greater Greenspoint Redevelopment Authority	3,145	106	-	-
Uptown Development Authority	10,793	-	-	-
Southwest Houston Redevelopment Authority	290	-	-	-
Library Board	2,435	106	-	-
Parks Board	2,389	-	4,249	-
Nonmajor Component Units	17,080	-	1,416	-
<b>Total component units</b>	<u>\$ 51,611</u>	<u>\$ 212</u>	<u>\$ 6,094</u>	<u>\$ (8,466)</u>
 <b>General Revenues:</b>				
Taxes				
Property Taxes levied for general purposes				8,519
Contributions				18
Unrestricted investment earnings				10
Other				9
<b>Total general revenues, special items and transfers</b>				<u>8,556</u>
Change in net assets				90
Net Assets beginning				706
Net Assets ending				<u>\$ 796</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Net (Expense) Revenue and Change In Net Assets**

<b>Midtown Redevelopment Authority</b>	<b>Greater Greenspoint Redevelopment Authority</b>	<b>Uptown Redevelopment Authority</b>	<b>Southwest Houston Redevelopment Authority</b>	<b>Library Board</b>	<b>Parks Board</b>	<b>Nonmajor Component Units</b>	<b>Total Component Units</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (8,466)
(6,584)	-	-	-	-	-	-	(6,584)
-	(3,039)	-	-	-	-	-	(3,039)
-	-	(10,793)	-	-	-	-	(10,793)
-	-	-	(290)	-	-	-	(290)
-	-	-	-	(2,329)	-	-	(2,329)
-	-	-	-	-	1,860	-	1,860
-	-	-	-	-	-	(15,664)	(15,664)
<u>\$ (6,584)</u>	<u>(3,039)</u>	<u>(10,793)</u>	<u>(290)</u>	<u>(2,329)</u>	<u>1,860</u>	<u>(15,664)</u>	<u>(45,305)</u>
4,493	4,656	3,563	539	-	-	12,939	34,709
-	-	-	-	1,972	-	-	1,990
211	369	109	17	79	112	634	1,541
255	-	-	14	343	22	383	1,026
<u>4,959</u>	<u>5,025</u>	<u>3,672</u>	<u>570</u>	<u>2,394</u>	<u>134</u>	<u>13,956</u>	<u>39,266</u>
(1,625)	1,986	(7,121)	280	65	1,994	(1,708)	(6,039)
(5,292)	(2,817)	(16,411)	(8,816)	15,641	11,727	(25,741)	(31,003)
<u>\$ (6,917)</u>	<u>\$ (831)</u>	<u>\$ (23,532)</u>	<u>\$ (8,536)</u>	<u>\$ 15,706</u>	<u>\$ 13,721</u>	<u>\$ (27,449)</u>	<u>\$ (37,042)</u>



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Net Assets**  
**Major Component Units - Discretely Presented Business-type**  
**June 30, 2003**  
(in thousands)

	<b>Houston Convention Center Hotel Corp.</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Inc.</b>	<b>Total</b>
Cash, receivable and investments	\$ 2,505	\$ 13,079	\$ 7,676	\$ 23,260
Due from primary government	-	-	-	-
Noncurrent assets	137,768	11,387	605	149,760
Capital assets, net of accumulated depreciation	216,167	-	3,796	219,963
Total assets	<u>356,440</u>	<u>24,466</u>	<u>12,077</u>	<u>392,983</u>
Current liabilities	44,734	470	1,477	46,681
Due to primary government	315,493	-	-	315,493
Long-term liabilities	-	3,712	-	3,712
Total liabilities	<u>360,227</u>	<u>4,182</u>	<u>1,477</u>	<u>365,886</u>
Net assets				
Invested in capital assets, net of related debt	-	-	-	-
Restricted	-	2,160	-	2,160
Unrestricted (deficit)	(3,787)	18,124	10,600	24,937
Total net assets (deficit)	<u>\$ (3,787)</u>	<u>\$ 20,284</u>	<u>\$ 10,600</u>	<u>\$ 27,097</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Change in Net Assets**  
**Major Component Units - Discretely Presented Business-type**  
**For the Year Ended June 30, 2003**  
(in thousands)

<b>Component Units</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
Houston Convention Center Hotel Corp.	\$ 2,275	\$ -	\$ -
Houston Housing Finance Corp.	8,501	1,233	6,705
Houston Zoo Inc.	14,606	13,440	8,697
Totals	<u>\$ 25,382</u>	<u>\$ 14,673</u>	<u>\$ 15,402</u>

**General Revenues:**

**Taxes**

Property Taxes levied for debt service

Unrestricted investment earnings

**Total general revenues, special items, and transfers**

Change in net assets

Net Assets (deficit) beginning

Net Assets (deficit) ending

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

Net (Expense) Revenue and Change in Net Assets			
Houston Convention Center Hotel Corp.	Houston Housing Finance Corp.	Houston Zoo Inc.	Totals 2003
\$ (2,275)	\$ -	\$ -	(2,275)
-	(563)	-	(563)
-	-	7,531	7,531
\$ (2,275)	\$ (563)	\$ 7,531	\$ 4,693
-	1,859	-	1,859
16	675	56	747
16	2,534	56	2,606
(2,259)	1,971	7,587	7,299
(1,528)	18,313	3,013	19,798
\$ (3,787)	\$ 20,284	\$ 10,600	\$ 27,097

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2003

**Discretely Presented Component Units - Business-Type**  
**Statement of Cash Flows**  
*(in thousands)*

	<b>Houston Convention Center Hotel Corporation</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Corporation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 132	\$ 9,960	\$ 13,075	\$ 23,167
Payments to employees	(2,275)	(6,705)	(9,761)	(18,741)
Payments to suppliers	-	-	(3,236)	(3,236)
Other revenues	-	859	3,270	4,129
Other expenses	1,707	(975)	-	732
Net cash provided by operating activities	<u>(436)</u>	<u>3,139</u>	<u>3,348</u>	<u>6,051</u>
<b>Cash flows from investing activities</b>				
Interest income on investments	16	-	50	66
Purchase of investments	-	(38,207)	(432)	(38,639)
Proceeds from sale of investments	132,966	33,840	-	166,806
Collection of long-term receivables	-	1,068	-	1,068
Net cash provided by investing activities	<u>132,982</u>	<u>(3,299)</u>	<u>(382)</u>	<u>129,301</u>
<b>Cash flows from capital and related financing activities</b>				
Contributed capital	-	-	4,073	4,073
Acquisition of property, plant and equipment	(132,506)	-	(3,593)	(136,099)
Accrued maintenance repair and replacement cost	-	-	(2,769)	(2,769)
Proceeds from sale of fixed assets	-	-	259	259
Net cash provide by (used for) capital and related financing activities	<u>(132,506)</u>	<u>-</u>	<u>(2,030)</u>	<u>(134,536)</u>
<b>Cash flows from noncapital financing activities</b>				
Contributions to others	-	(566)	456	(110)
Excess funds from Series 1988 and Series 1990 Bond Series	-	1,109	-	1,109
Payments on notes payable	-	(265)	-	(265)
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>278</u>	<u>456</u>	<u>734</u>
Net increase (decrease) in cash and cash equivalents	40	118	1,392	1,550
Cash and cash equivalents, July 1, 2002	174	581	1,980	2,735
<b>Cash and cash equivalents, June 30, 2003</b>	<u>\$ 214</u>	<u>\$ 699</u>	<u>\$ 3,372</u>	<u>\$ 4,285</u>
<b>Non cash transactions</b>				
Amortization expense	-	-	300	300
Transfer of property - Urban Homesteading Program	-	147	-	147
Gain (Loss) on disposal of assets	-	-	36	36
Total non cash transactions	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 336</u>	<u>\$ 483</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (Loss)	\$ (2,275)	\$ 1,427	\$ 7,587	6,739
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	-	249	300	549
Other revenues	-	-	(4,571)	(4,571)
Other expenses	(187)	-	-	(187)
Changes in assets and liabilities:				
Accounts receivable	132	-	(1,277)	(1,145)
Contracts receivable	-	1,447	397	1,844
Inventory	-	-	-	-
Accounts payable	-	-	37	37
Accrued payroll liabilities	-	(168)	450	282
Advances and deposits	-	-	425	425
Accrued interest on contracts payable	-	184	-	184
Other revenues	-	-	-	-
Other long-term liabilities	1,894	-	-	1,894
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (436)</u>	<u>\$ 3,139</u>	<u>\$ 3,348</u>	<u>\$ 6,051</u>



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**Note 17. Subsequent Events**

**A. Tax and Revenue Anticipation Notes**

On July 1, 2003, the City closed the sale of \$175,000,000 Tax and Revenue Anticipation Notes ("TRANS"), Series 2003. The proceeds of the TRANS will be used to pay working capital expenditures until tax revenues are received in February 2004. Stated interest rates were 1.5 to 2.0%, and the average yield was 0.86%. The notes will mature on June 30, 2004.

On October 15, 2003 the City signed a private placement agreement allowing it to borrow up to an additional \$50,000,000 in TRANS at a rate equal to 84% of the three month LIBOR index on the date of purchase. On October 15, 2003 the City drew \$15,000,000 as part of this agreement.

**B. Public Improvement Refunding Bonds**

On October 30, 2003, the City closed the sale of \$156,535,000 Public Improvement Refunding Bonds, Series 2003A-1. Stated interest rates for the bonds ranged from 2.00% to 5.25%, and the average yield was 4.185%. The bonds are due in varying amounts from years 2005 to 2023. Proceeds of the bonds were used to advance refund certain annexed district debt and the Public Improvement Bonds, Series 1995C; to currently refund all Series C General Obligation Commercial Paper Notes and part of Series A General Obligation Commercial Paper Notes; and to fund new projects related to previously annexed districts. Proceeds were used to purchase an escrow consisting of U.S. Government State and Local Government Securities for all future refunded debt service payments.

On December 2, 2003 the City closed the sale of \$39,635,000 Public Improvement Refunding Bonds, Series 2003A-2. Stated interest rates for the bonds ranged from 2.00% to 5.00%, and the average yield was 3.126%. The bonds are due in varying amounts from years 2005 to 2012. Proceeds of the bonds were used to advance refund certain annexed district debt and Public Improvement Bonds, Series 1994A, and to pay issuance costs. Proceeds were used to purchase an escrow consisting of U.S. Government State and Local Government Securities for all future refunded debt service payments.

**C. Certificates of Obligation**

On October 30, 2003, the City closed the sale of \$2,210,000 Certificates of Obligation Series 2003B. The stated interest rate for the certificates, which mature in 2009, was 3.00%, and the yield was 2.987%. Proceeds of the certificates will be used for the demolition of dangerous buildings.

## Required Supplementary Information

**CITY OF HOUSTON, TEXAS**  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2003**  
*amounts expressed in thousands*

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Variance with Final Budget-Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes and assessments				
Property Taxes	\$ 654,070	\$ 654,070	\$ 646,377	\$ (7,693)
Industrial Assessments	16,000	16,000	15,014	(986)
Sales Tax	361,087	361,087	322,538	(38,549)
Franchise Tax	160,020	163,820	160,673	(3,147)
Mixed Beverage Tax	8,000	8,000	7,572	(428)
Bingo Tax	280	280	245	(35)
Total taxes and assessments	<u>1,199,457</u>	<u>1,203,257</u>	<u>1,152,419</u>	<u>(50,838)</u>
Licenses and permits				
General	7,519	12,474	8,846	(3,628)
Health Permits	5,587	5,587	6,489	902
Total licenses and permits	<u>13,106</u>	<u>18,061</u>	<u>15,335</u>	<u>(2,726)</u>
Charges for services				
Ambulance service	18,400	20,400	20,944	544
Library fees	24	24	261	237
Parking	3,463	3,463	2,908	(555)
Services performed for other funds				
Direct	84,457	74,457	62,099	(12,358)
Indirect	15,373	15,373	15,859	486
Rents and royalties	1,047	1,047	960	(87)
Others	10,598	10,003	12,350	2,347
Total charges for services	<u>133,362</u>	<u>124,767</u>	<u>115,381</u>	<u>(9,386)</u>
Intergovernmental - grants	<u>2,188</u>	<u>12,188</u>	<u>15,385</u>	<u>3,197</u>
Fines and forfeits				
Municipal Courts	44,940	44,940	42,433	(2,507)
Others	2,397	2,397	2,185	(212)
Total fines and forfeits	<u>47,337</u>	<u>47,337</u>	<u>44,618</u>	<u>(2,719)</u>
Contributions	350	350	864	514
Interest	8,500	8,500	6,893	(1,607)
Other				
Sale of Property	2,795	2,795	3,347	552
Other	17,718	7,558	6,846	(712)
Total Other	<u>20,513</u>	<u>10,353</u>	<u>10,193</u>	<u>(160)</u>
<b>Total revenues</b>	<u>1,424,813</u>	<u>1,424,813</u>	<u>1,361,088</u>	<u>(63,725)</u>
<b>Other financing sources (uses)</b>				
Net proceeds from issuance of debt	-	-	-	-
Transfers in	4,100	4,100	49,440	45,340
<b>Total other financing sources (uses)</b>	<u>4,100</u>	<u>4,100</u>	<u>49,440</u>	<u>45,340</u>
<b>Total revenues and other financing sources</b>	<u>\$ 1,428,913</u>	<u>\$ 1,428,913</u>	<u>\$ 1,410,528</u>	<u>\$ (18,385)</u>

(Continued)

\* See note to Required Supplementary Information\*



## Required Supplementary Information

**CITY OF HOUSTON, TEXAS**  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2003**  
*amounts expressed in thousands*

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
General government				
Legislative and executive				
Legislative - Council				
Personnel services	3,872	3,963	3,762	201
Other current expenditures	264	272	199	73
Equipment acquisition	-	-	-	-
Total legislative - council	<u>4,136</u>	<u>4,235</u>	<u>3,961</u>	<u>274</u>
Legislative - Mayor's Office				
Personnel services	1,515	1,554	1,554	-
Other current expenditures	307	304	304	-
Total executive - mayor's office	<u>1,822</u>	<u>1,858</u>	<u>1,858</u>	<u>-</u>
Total legislative and executive	<u>5,958</u>	<u>6,093</u>	<u>5,819</u>	<u>274</u>
Affirmative Action				
Personnel services	1,657	1,652	1,650	2
Other current expenditures	165	165	158	7
Total affirmative action	<u>1,822</u>	<u>1,817</u>	<u>1,808</u>	<u>9</u>
Judicial				
Municipal Courts Judges				
Personnel services	3,625	3,707	3,666	41
Other current expenditures	277	288	259	29
Equipment acquisition	1	-	-	-
Total municipal court judges	<u>3,903</u>	<u>3,995</u>	<u>3,925</u>	<u>70</u>
Municipal Courts Administration				
Personnel services	14,468	14,316	14,016	300
Other current expenditures	2,147	2,058	1,726	332
Equipment acquisition	4	36	34	2
Total municipal court administration	<u>16,619</u>	<u>16,410</u>	<u>15,776</u>	<u>634</u>
Total judicial	<u>20,522</u>	<u>20,405</u>	<u>19,701</u>	<u>704</u>
Elections	-	-	34	(34)
Finance administration				
Controller				
Personnel services	5,132	4,982	4,929	53
Other current expenditures	1,038	1,028	896	132
Equipment acquisition	-	10	10	-
Total controller	<u>6,170</u>	<u>6,020</u>	<u>5,835</u>	<u>185</u>
Finance and Administration				
Personnel services	16,705	16,544	16,344	200
Other current expenditures	1,808	1,332	1,125	207
Total finance and administration	<u>18,513</u>	<u>17,876</u>	<u>17,469</u>	<u>407</u>
Information Technology				
Personnel services	8,213	8,211	8,642	(431)
Other current expenditures	2,371	3,485	2,417	1,068
Equipment acquisition	-	-	-	-
Total information technology	<u>10,584</u>	<u>11,696</u>	<u>11,059</u>	<u>637</u>
Audits	705	705	693	12
Bond and Legal	915	915	1,102	(187)
Total finance administration	<u>36,887</u>	<u>37,212</u>	<u>36,158</u>	<u>1,054</u>
Legal				
Personnel services	9,462	9,675	9,570	105
Other current expenditures	1,303	1,251	1,141	110
Equipment acquisition	-	-	-	-
Total legal	<u>10,765</u>	<u>10,926</u>	<u>10,711</u>	<u>215</u>
City Secretary				
Personnel services	688	649	597	52
Other current expenditures	77	92	88	4
Equipment acquisition	-	-	-	-
Total city secretary	<u>765</u>	<u>741</u>	<u>685</u>	<u>56</u>
Planning and Development				
Personnel services	12,188	12,248	12,023	225
Other current expenditures	3,749	3,385	3,186	199
Equipment acquisition	-	-	-	-
Total planning and development	<u>15,937</u>	<u>15,633</u>	<u>15,209</u>	<u>424</u>

\*See note to required Supplementary Information\*

(Continued)

## Required Supplementary Information

CITY OF HOUSTON, TEXAS  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2003**  
*amounts expressed in thousands*

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Human Resources				
Personnel services	2,493	2,450	2,313	137
Other current expenditures	397	348	269	79
Total human resources	2,890	2,798	2,582	216
<b>Total general government</b>	<b>95,546</b>	<b>95,625</b>	<b>92,707</b>	<b>2,918</b>
Public safety				
Police				
Personnel services	437,749	426,775	424,819	1,956
Other current expenditures	24,259	23,771	24,638	(867)
Equipment acquisition	340	285	168	117
Total police	462,348	450,831	449,625	1,206
Fire				
Personnel services	268,287	268,308	265,512	2,796
Other current expenditures	14,812	14,537	14,060	477
Equipment acquisition	50	61	46	15
Total fire	283,149	282,906	279,618	3,288
<b>Total public safety</b>	<b>745,497</b>	<b>733,737</b>	<b>729,243</b>	<b>4,494</b>
Public Works				
Administration				
Personnel services	45,374	41,399	41,010	389
Other current expenditures	45,627	44,040	44,622	(582)
Equipment acquisition	60	60	60	-
Total administration	91,061	85,499	85,692	(193)
Building Services				
Personnel services	15,575	14,962	15,238	(276)
Other current expenditures	14,974	13,965	13,027	938
Equipment acquisition	-	-	-	-
Total building services	30,549	28,927	28,265	662
Solid Waste				
Personnel services	26,589	26,634	25,490	1,144
Other current expenditures	34,457	35,432	36,040	(608)
Equipment acquisition	5	5	5	-
Total solid waste	61,051	62,071	61,535	536
<b>Total public works</b>	<b>182,661</b>	<b>176,497</b>	<b>175,492</b>	<b>1,005</b>

(Continued)

\*See note to required Supplementary Information\*

## Required Supplementary Information

CITY OF HOUSTON, TEXAS  
GENERAL OPERATING FUND  
Schedule of Budgeted and Actual Revenues and Expenditures  
For the Year Ended June 30, 2003  
amounts expressed in thousands

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Health				
Personnel services	41,976	39,599	38,996	603
Other current expenditures	14,042	13,002	12,245	757
Equipment acquisition	-	194	172	22
<b>Total health</b>	56,018	52,795	51,413	1,382
Parks and Recreation				
Personnel services	42,052	38,474	37,760	714
Other current expenditures	13,284	17,203	16,420	783
Equipment acquisition	-	20	20	-
<b>Total parks and recreation</b>	55,336	55,697	54,200	1,497
Library				
Personnel services	22,284	22,391	21,738	653
Other current expenditures	6,787	6,592	5,708	884
Equipment acquisition	5,842	6,041	6,040	1
<b>Total library</b>	34,913	35,024	33,486	1,538
Retiree Benefits				
Hospital and life insurance	30,875	21,286	21,430	(144)
<b>Total retiree benefits</b>	30,875	21,286	21,430	(144)
Other current expenditures				
Tax refunds	6,100	6,100	10,349	(4,249)
Tax appraisal fees	4,932	4,932	4,983	(51)
Limited-purpose Annexation Districts	5,788	5,788	3,541	2,247
Insurance	1,000	1,572	1,454	118
Claims and judgments	7,500	6,878	5,134	1,744
Membership dues	748	748	718	30
Advertising and promotion	200	200	219	(19)
Consultants	1,056	1,056	1,340	(284)
Interest on short term borrowing	4,650	3,220	3,216	4
Miscellaneous support services	10,179	10,179	7,233	2,946
<b>Total other current expenditures</b>	42,153	40,673	38,187	2,486
Capital outlay equipment				
Acquisition and others				
Commercial paper	-	-	-	-
<b>Total capital expenditures</b>	-	-	-	-
<b>Total expenditures</b>	1,242,999	1,211,334	1,196,158	15,176
<b>Other financing sources (uses)</b>				
Transfers out	185,863	188,606	191,959	\$ (3,353)
<b>Total other financing sources (uses)</b>	\$ 185,863	\$ 188,606	\$ 191,959	\$ (3,353)
<b>Total expenditures and other financing uses</b>	1,428,862	1,399,940	1,388,117	11,823

Concluded

\*See note to required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**REQUIRED RECONCILIATION FOR GENERAL FUND**  
**BUDGET vs. GAAP**  
**PRESENTATION**

**Revenues**

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$	1,361,088
Revenues of non-budgeted funds		
Equipment Acquisition		111
Dangerous building demolition programs		14
Revolving Funds		2,187
PIB 99A		4
Fleet Management		5,429
Risk Management		6,932
Vendor Overpayment		187
Total revenues of non-budgeted funds		14,864
Refunds of property tax budgeted as expenditures, reclassified as a reduction to revenues for GAAP reporting		(10,349)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	\$	1,365,603

**Expenditures**

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$	1,196,158
Expenditures of non-budgeted funds		
Special Non- Recurring Items - Other		84
Equipment Acquisition		19,218
Dangerous building demolition programs		2,009
Revolving Funds		1,882
Fleet Management		9,688
Risk Management		12,899
Vendor Overpayment		50
Grant Matching Fund		870
Total expenditures of non-budgeted funds		46,700
Refunds of property tax budgeted as expenditures, reclassified as a reduction to revenues for GAAP reporting		(10,349)
Reclass of expenditures between funds		
Insurance payments made for others		(1,455)
Legal Services performed for others		(2,053)
Other Services performed for others		(2,434)
Total reclass of expenditures between funds		(5,942)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	\$	1,226,567

\*See note to Required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**REQUIRED RECONCILIATION FOR GENERAL FUND**  
**BUDGET vs. GAAP**  
**PRESENTATION**

**Other financing sources (uses)**

Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$	(142,519)
Adjustments:		
Transfer from Special Non-Recurring Projects		(119)
Transfer from Commercial Paper Proceeds		<u>23,500</u>
Total Adjustments		<u>23,381</u>
Reclass transfer from Planning & Development		
Special Project fund		100
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances--governmental funds		
	\$	<u><u>(119,038)</u></u>

\*See note to Required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**REQUIRED NOTES TO THE SUPPLEMENTARY INFORMATION**  
**June 30, 2003**

**1. General Budget Policies**

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

The following provides a reconciliation of the City's budgeting policy with respect to Special Revenue Funds for actual fiscal year 2003 results (in thousands):

	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Sources (Uses)</b>
Budgeted Special Revenue Funds	\$ 49,116	\$ 95,328	\$ 53,635
Non-budgeted Disaster Recovery Fund	21,737	-	(21,767)
Non-budgeted Grants Revenue Fund	125,061	124,833	-
Non-budgeted Health and Housing	522	1,146	(400)
Non-budgeted Other Funds	10,310	8,577	
<b>Total Special Revenue Funds - Actual</b>	<b>\$ 206,746</b>	<b>\$ 229,884</b>	<b>\$ 31,468</b>

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

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

On March 25, 2003, City Council approved the FY03 general appropriation ordinance in the amount of \$1.4 billion for the General Fund. City Council approved budget revisions decreasing General Fund expenditures and other uses by \$29 million. These decreases were primarily in personnel and supplies as well as reductions in travel and wireless communications. City Council also approved appropriations and transfers from other funds to the General Fund totaling \$30.3 million in order to maintain a balance between revenues and expenditures.

**CITY OF HOUSTON, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2003**

**Houston Firefighters' Pension System Supplementary Information (unaudited)**

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1996	\$1,024.5	\$ 989.3	(\$35.2)	104%	\$131.6	(27%)
July 1, 1997	\$1,183.8	\$1,128.2	(\$55.6)	105%	\$142.0	(39%)
July 1, 1998	\$1,347.4	\$1,271.4	(\$76.0)	106%	\$149.0	(51%)
July 1, 1999	\$1,538.5	\$1,470.6	(\$67.9)	105%	\$159.0	(43%)
July 1, 2000	\$1,726.3	\$1,589.3	(\$137.0)	109%	\$163.6	(84%)
July 1, 2001	\$1,863.1	\$1,650.8	(\$212.3)	113%	\$164.3	(129%)
July 1, 2002	\$1,922.4	\$1,970.2	\$47.8	97.6%	\$190.6	25%

**Houston Municipal Pension System Supplementary Information (unaudited)**

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1995	\$770.2	\$963.7	\$193.5	80%	\$378.5	51%
July 1, 1996	\$857.3	\$1,042.5	\$185.2	82%	\$367.6	50%
July 1, 1998	\$1,095.6	\$1,240.1	\$144.5	88%	\$397.7	36%
July 1, 1999	\$1,222.2	\$1,339.9	\$117.7	91%	\$407.7	29%
July 1, 2000	\$1,376.0	\$1,509.4	\$133.4	91%	\$432.6	31%
July 1, 2001	\$1,490.2	\$1,955.8	\$465.6	76%	\$418.0	111%
July 1, 2002	\$1,519.7	\$2,515.2	\$995.5	60%	\$399.8	249%

**Houston Police Officer's Pension System Supplementary Information (unaudited)**

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1996	\$1,168.1	\$1,199.7	\$31.6	97%	\$182.3	17%
July 1, 1997	\$1,329.6	\$1,258.2	(\$71.4)	106%	\$187.1	(38%)
July 1, 1998	\$1,518.1	\$1,549.3	\$31.2	98%	\$196.4	16%
July 1, 1999	\$1,746.3	\$1,773.8	\$27.5	98%	\$246.6	11%
July 1, 2000	\$2,013.5	\$1,966.4	(\$47.1)	102%	\$250.7	(19%)
July 1, 2001	\$2,226.3	\$2,306.4	\$80.1	97%	\$264.2	30%
July 1, 2002	\$2,337.1	\$2,593.7	\$256.6	90%	\$286.1	90%

CITY OF HOUSTON, TEXAS

