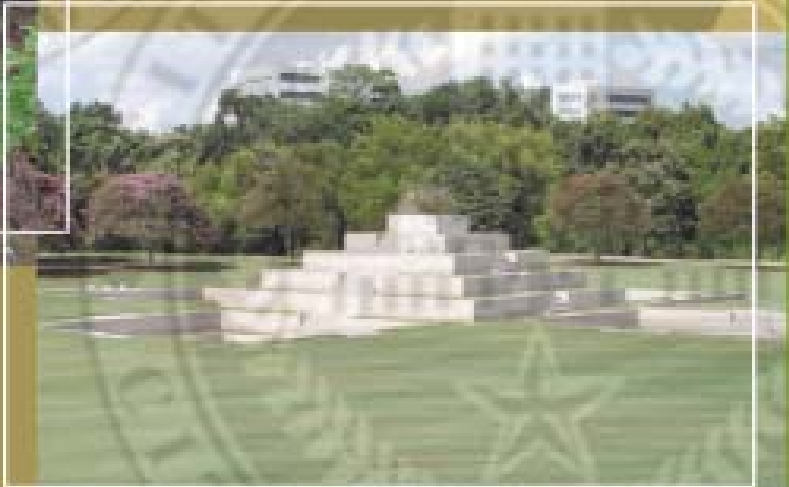




"Life is short, art endures."

Hippocrates, Greek philosopher



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houston, Texas (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Firefighter's Relief and Retirement Pension Trust Fund, the Municipal Employees' Pension Trust Fund and the Police Officers' Pension Trust Fund, blended component units of the City, which, in aggregate, represent 100% of the assets of the pension trust funds, within the fiduciary funds. In addition we did not audit the financial statements of the nonmajor business-type enterprise fund, which represents 1% and 0% of the assets and revenues of business-type activities of the City. We also did not audit the financial statements of any governmental discretely presented component unit or any business-type discretely presented component unit, except for the Houston Convention Center Hotel Corporation, which represents 87% and 49%, respectively, of the business-type discretely presented component units assets and revenues. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such business-type activities and governmental and business – type discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements noted above as being audited by other auditors were audited in accordance with generally accepted auditing standards, but neither the financial statements referred to above as being audited by other auditors nor the financial statements of the Houston Convention Center Hotel Corporation were audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and aggregate remaining fund information of the City of Houston, Texas, as of June 30, 2004, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Budgeted and Actual Revenues and Expenditures of the General Operating Fund and Pension System supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte Touche LLP

December 23, 2004

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

**June 30, 2004**

As management of the City of Houston, we offer readers of the City of Houston's financial statements this narrative overview and analysis of the financial activities of the City of Houston for the fiscal year ended June 30, 2004. Please read this information in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2003. All amounts, unless otherwise indicated, are expressed in millions of dollars.

**Financial Highlights**

Some of the City's financial highlights for the fiscal year ending June 30, 2004 include:

- €# The assets of the City of Houston exceeded its liabilities at the close of the most recent fiscal year by \$5.1 billion.
- €# The government's total net assets decreased by \$313 million during the year. The two most significant changes that led to this decrease were:
  - o \$121 million increase in net pension liability (note 10, pg. 75).
  - o \$82 million increase in legal liability (primarily the Vela settlement – pg. 96).
- €# Unrestricted assets are a deficit of \$399 million.
- €# The City of Houston's total expenses were \$2.955 billion.
- €# Program revenues of \$1.293 billion reduced the net cost of the City's functions to be financed from the City's general revenues to \$1.662 billion.

**Overview of the Financial Statements**

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

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

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

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

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

recreation, and library. The business-type activities of the City of Houston include the airport system, water & sewer system and convention & entertainment facilities.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet (see pgs. 20-21) displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures, and changes in fund balances and governmental activities is provided on a separate schedule (see page 24).

The City of Houston maintains nine individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet (see page 20) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (see page 22) for the general fund, the debt service fund, the capital projects fund and the grants fund, all of which are considered to be major funds. Data from the other funds is combined in the column labeled "Nonmajor Governmental Funds" on both of these statements (see also the separate tab labeled "Governmental Funds" for more information on these funds).

**Proprietary funds.** The City of Houston maintains two different types of proprietary funds (see statements beginning on page 26): Enterprise funds (see also separate tab of same name) and internal service funds (see also separate tab of same name). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Houston uses enterprise funds to account for its aviation system, combined utility system (formerly called the water and sewer system), and the convention and entertainment facilities. The City also includes the Houston Area Water Corporation as a nonmajor proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Houston's various functions. The City of Houston uses internal service funds to account for health and benefits and long-term disability activities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the aviation system, combined utility system and convention and entertainment facilities, all of which are considered to

be major funds for the City of Houston. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning: General fund – budget vs. actual (pgs. 97-102); general budget policies (pg. 102); and the City of Houston's progress in funding its obligation to provide pension benefits to its employees (pg. 103).

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Houston, on a government-wide basis, assets exceeded liabilities by \$5.1 billion at the close of the most recent fiscal year

**Net Assets**  
**June 30, 2004**  
(With comparative totals for 2003)  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 750	\$ 789	\$ 1,905	\$ 2,665	\$ 2,655	\$ 3,454
Capital assets	5,500	5,430	7,536	7,072	13,036	12,502
Total assets	6,250	6,219	9,441	9,737	15,691	15,956
Long-term liabilities	2,597	2,076	7,202	7,176	9,799	9,252
Other liabilities	445	776	389	557	834	1,333
Total liabilities	3,042	2,852	7,591	7,733	10,633	10,585
Net assets						
Invested in capital assets, net of related debt	3,388	3,354	1,361	1,069	4,749	4,423
Restricted	206	198	502	1,006	708	1,204
Unrestricted (deficit)	(386)	(185)	(13)	(71)	(399)	(256)
Total net assets	<u>\$ 3,208</u>	<u>\$ 3,367</u>	<u>\$ 1,850</u>	<u>\$ 2,004</u>	<u>\$ 5,058</u>	<u>\$ 5,371</u>

By far the largest portion of the City of Houston's net assets (93.9%) reflects its investment in capital assets (e.g., land, building, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Houston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Houston's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City of Houston's net assets (14%) represents resources that are subject to external restrictions on how they may be used.

**Change in Net Assets**

**June 30, 2004**

(With comparative totals for 2003)

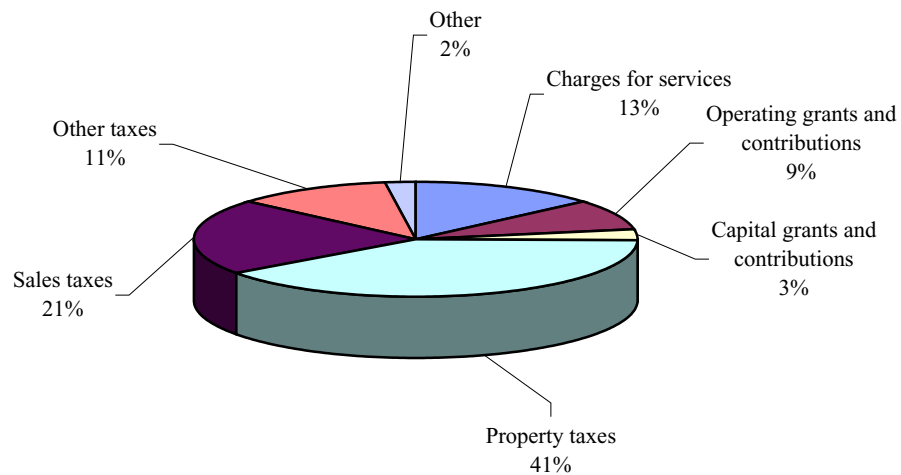
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues:						
Charges for services	\$ 219	\$ 198	\$ 819	\$ 797	\$ 1,038	\$ 995
Operating grants and contributions	144	137	22	-	166	137
Capital grants and contributions	46	6	42	48	88	54
General revenues:					-	
Property taxes	646	640	-	-	646	640
Sales taxes	348	322	-	-	348	322
Other taxes	185	184	47	43	232	227
Other	37	59	57	102	94	161
Total revenues	<u>1,625</u>	<u>1,546</u>	<u>987</u>	<u>990</u>	<u>2,612</u>	<u>2,536</u>
Expenses:						
General government	234	150	-	-	234	150
Public safety	903	818	-	-	903	818
Public works	251	238	-	-	251	238
Health	105	100	-	-	105	100
Housing and community development	63	48	-	-	63	48
Parks and recreation	63	85	-	-	63	85
Library	38	38	-	-	38	38
Retiree benefits	27	21	-	-	27	21
Interest on Long-term Debt	96	98	-	-	96	98
Depreciation and amortization	86	120	-	-	86	120
Airport System	-	-	316	266	316	266
Convention & Entertainment Facilities	-	-	92	77	92	77
Combined Utility System	-	-	681	649	681	649
Total expenses	<u>1,866</u>	<u>1,716</u>	<u>1,089</u>	<u>992</u>	<u>2,955</u>	<u>2,708</u>
Change in net assets before contributions, special items and transfers	(241)	(170)	(102)	(2)	(343)	(172)
Contributions	40	102	-	5	40	107
Special items	3	3	(13)	(1)	(10)	2
Transfers	39	86	(39)	(86)	-	0
Change in net assets	<u>(159)</u>	<u>21</u>	<u>(154)</u>	<u>(84)</u>	<u>(313)</u>	<u>(63)</u>
Net assets July 1	<u>3,367</u>	<u>3,346</u>	<u>2,004</u>	<u>2,088</u>	<u>5,371</u>	<u>5,434</u>
Net assets June 30	<u>\$ 3,208</u>	<u>\$ 3,367</u>	<u>\$ 1,850</u>	<u>\$ 2,004</u>	<u>\$ 5,058</u>	<u>\$ 5,371</u>

**Governmental activities.** Governmental activities decreased the City of Houston's net assets by \$159 million. Key elements of this change are as follows:

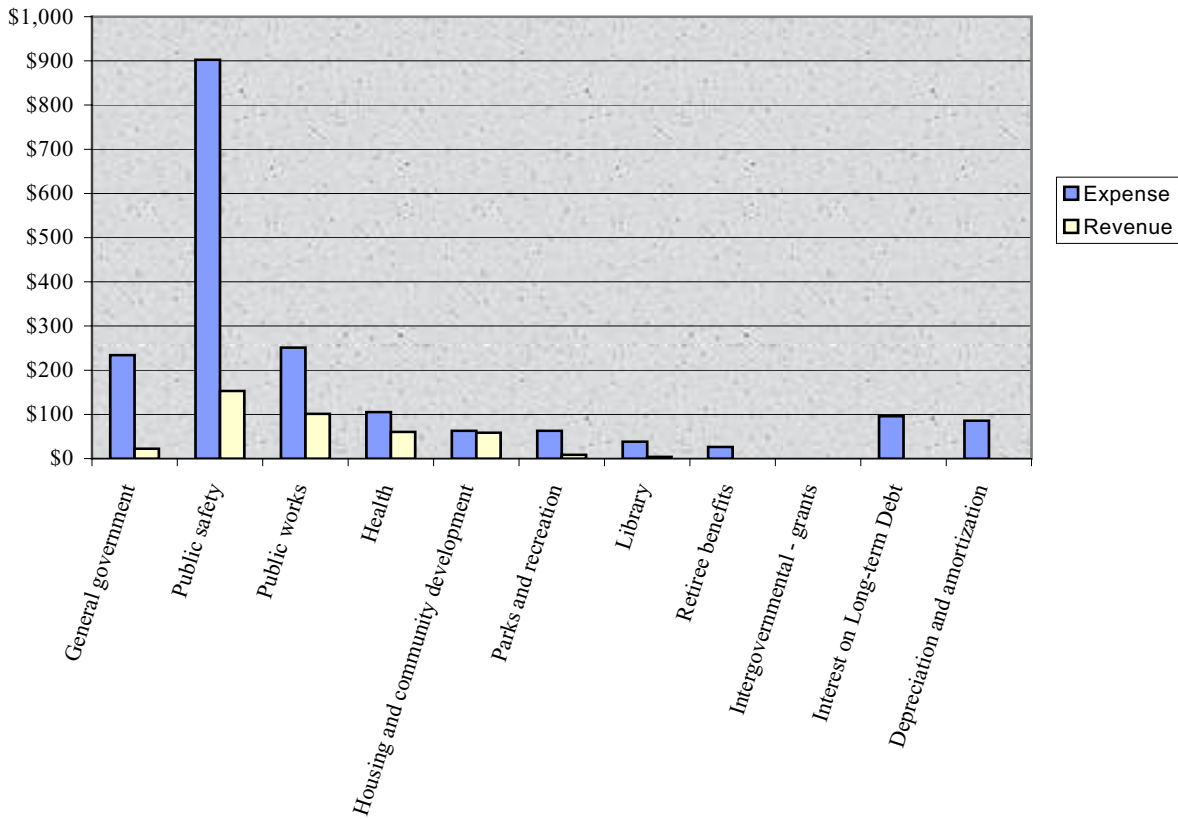
- ⌘ Sales tax revenue rebounded in the second half of fiscal year 2004 providing an 8% increase for the year, from \$322 million to \$348 million.
- ⌘ The City's property tax rate was held constant at \$0.655 per \$100 assessed value. Property tax revenue increased by \$6 million because of the City's rising property values and continued effort in the collection of delinquent taxes.
- ⌘ The largest increases in expenses were in the areas of public safety and general government - \$85 million and \$84 million, respectively. \$7 million of the increase in general government is offset by a decrease in parks and recreation since the zoo contract is budgeted in general government and previously had been shown as part of parks and recreation.
- ⌘ Retiree benefits were up 29% from \$21 million to \$27 million, reflecting the overall issue of increased health care costs.

**Revenue by Source - Governmental Activities**





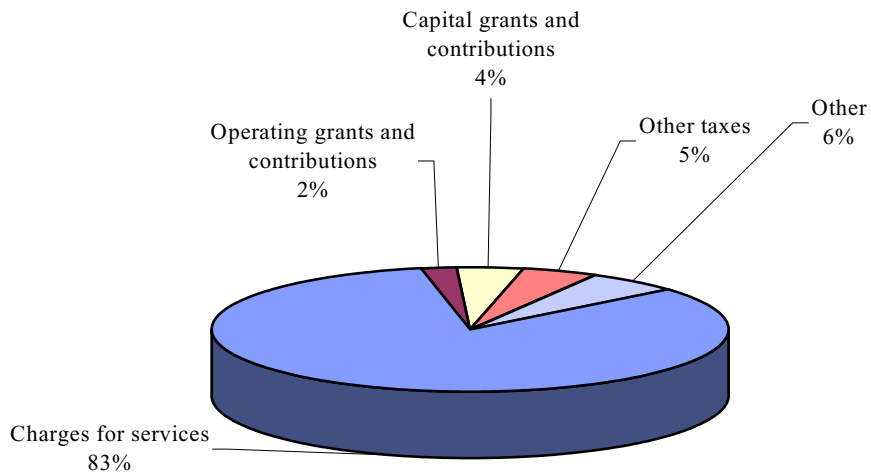
**Program Revenue and Expense  
Governmental**



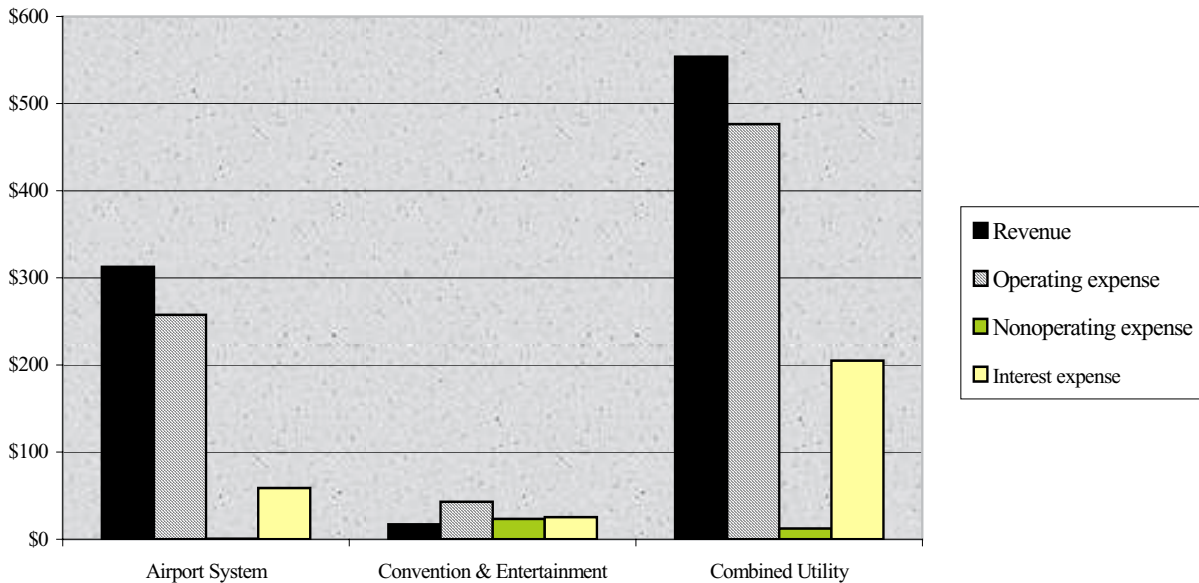
**Business-type activities.** Business-type activities decreased the City of Houston’s net assets by \$154 million. Key elements of this change are as follows:

- ⌘ Airport systems operating expenses were up by 20%, from \$215 million to \$257 million. Operating revenues for these facilities were up by 12%, from \$241 million to \$270 million. Investment income decreased by 80% from \$30 million to \$6 million.
- ⌘ Convention & Entertainment operating expenses increased by 38.7%, from \$31 million to \$43 million. This is primarily due to an increase in depreciation (\$8 million) for the new addition to the George R. Brown Convention Center. Operating revenues remained somewhat flat, with an increase of less than 1%. Hotel occupancy taxes increased by 9.4%, from \$43 million to \$47 million.
- ⌘ The Combined Utility System operating expenses (down by 1.5%) and operating revenues (down by 1.5%) did not change significantly. However, investment income was down by 71.3%, from \$24 million to \$7 million and interest expense was up by 23.8%, from \$166 million to \$205 million. Also, contributions were up 188%, from \$8 million to \$22 million.

**Revenue by Source Business-type**



**Program Revenue & Expense Business-type**



## Financial Analysis of the Government's Funds

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

**Governmental funds (see pgs.20-23 and separate tab of same name).** The focus of the City of Houston's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Houston's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Houston's governmental funds reported combined ending fund balances of \$363 million. Approximately 45.9% of this total amount (\$167 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for capital expenditures (\$79 million), (2) to pay debt service (\$95 million), or (3) a variety of other restricted purposes (\$22 million).

The general fund is the chief operating fund of the City of Houston. At the end of the current fiscal year, unreserved fund balance of the general fund was \$111 million, while the total fund balance reached \$136 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.6% of total general fund expenditures, while total fund balance represents 10.6% of that same amount.

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

- €# \$58 million increase in total revenues
- €# \$56 million increase in expenditures
- €# \$3 million increase in proceeds for issuance of debt
- €# \$43 million decrease in transfers from other funds
- €# \$17 million decrease in transfers to other funds

The debt service fund has a total fund balance of \$92 million, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current fiscal year in the debt service fund was \$8 million. Interest expenditures increased by \$9 million.

The grants fund is used to account for grant resources received from various local, state and national agencies and organizations. The grants fund has a reserved fund balance of \$4 million.

The capital projects fund, which is used for the acquisition and/or construction of capital facilities by the City (except those financed by Enterprise Funds), has a fund balance of \$75 million. The net increase in fund balance during the current fiscal year was \$18 million.

**Proprietary funds (see pgs.26-35 and tabs labeled "Enterprise Funds" and "Internal Services Funds").** The City of Houston proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the year, unrestricted net assets were \$0 for Airport System, \$20 million for Convention and Entertainment, \$6 million for the Houston Area Water Corporation, and a deficit of \$39 million for the Combined Utility System. The total increase in net assets for the Airport System and the Houston Area Water Corporation funds were \$6 million and \$6 million, respectively. The Combined Utility System and the Convention and Entertainment funds experienced decreases of \$157 million and \$9 million, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Houston's business-type activities.

## **General Fund Budgetary Highlights**

While revenues were only \$348 thousand below budget (pgs. 97-100), there were some significant differences between some of the budgeted and actual revenue numbers. Some of the increases/decreases from budget include:

- €# \$18 million increase in sales taxes
- €# \$12 million decrease in franchise fees
- €# \$5 million increase in other revenues
- €# \$5 million decrease in charges for services
- €# \$2 million decrease in interest
- €# \$2 million decrease in fines and forfeits

Budgeted expenditures were reduced by \$11 million to cover the expected revenue shortfall. The most significant changes in the budget were:

- €# \$4 million decrease for public safety
- €# \$3 million decrease for public works
- €# \$7 million decrease for health, parks and recreation and library
- €# \$3 million increase in general government

Ultimately, total expenditures for the General Fund were \$6 million above the final expenditure budget.

## **Capital Asset and Debt Administration**

**Capital assets** (see Note 6, Capital Assets, pages 56–57). The City of Houston's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$13 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, equipment, storm drainage, streets and bridges. The total increase in the City of Houston's net investment in capital assets for the current fiscal year was 4.3% (a 1.3% increase for governmental activities and a 6.6% increase for business-type activities).

**Capital Assets**  
**June 30, 2004**  
(With comparative totals for 2003)  
(net of depreciation in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 355	\$ 340	\$ 400	\$ 329	\$ 755	\$ 669
Buildings, improvements and equipment	528	388	2,160	1,657	2,688	2,045
Plants, lines and rights	-	-	3,554	3,369	3,554	3,369
Construction in progress	326	461	1,422	1,716	1,748	2,177
Infrastructure Assets	4,291	4,241	-	-	4,291	4,241
Total	<u>\$ 5,500</u>	<u>\$ 5,430</u>	<u>\$ 7,536</u>	<u>\$ 7,071</u>	<u>\$ 13,036</u>	<u>\$ 12,501</u>

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

- €# Governmental and Business-type activities construction in process balance reflects a \$429 million decrease.
- €# Governmental and Business-type activities land balance reflects a \$86 million increase.
- €# Governmental activities buildings, improvements and equipment balance reflects a \$140 million increase.
- €# Business-type activities buildings, improvements and equipment balance reflects a \$503 million increase.
- €# Business-type activities plants, lines and rights balance reflects a \$185 million increase.

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

**Long-term debt** (Note 8, pages 58–73). At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of \$9.3 billion. Of this amount, \$2.1 billion comprises debt backed by the full faith and credit of the government and \$25 million is debt related to the United States Department of Housing and Urban Development housing loans for which the government is liable in the event of default by the borrowers. The remainder of the City of Houston's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds and long-term contracts).

**Outstanding Debt**  
**June 30, 2004**  
(With comparative totals for 2003)  
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
General obligation bonds and commercial paper	\$ 2,072	\$ 2,025	\$ -	\$ -	\$ 2,072	\$ 2,025
Capital lease	52	53	-	-	52	53
Revenue bonds and commercial paper	-	-	6,873	6,942	6,873	6,942
Other borrowings	25	26	246	262	271	288
<b>Total</b>	<b>\$ 2,149</b>	<b>\$ 2,104</b>	<b>\$ 7,119</b>	<b>\$ 7,204</b>	<b>\$ 9,268</b>	<b>\$ 9,308</b>

The City's total debt decreased by \$40 million (0.4%) during the current fiscal year.

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

- €# \$574 million of public improvement bonds to refund commercial paper and refinance existing debt for savings.
- €# \$3 billion of combined utility system bonds to restructure the water and sewer system to provide present value savings, minimize needed rate increases, modernize bond covenants, and provide for enhanced drainage improvements.

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

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Houston is \$11.8 billion, which is significantly in excess of the City of Houston's outstanding general obligation debt.

## Next Year's Budget and Rates

Highlights of the FY05 budget are as follows:

- €# Decreased the property tax rate by ½ cent to 65.0 cents per \$100 of valuation and increased the homestead exemption for seniors,
- €# Increased the public safety budget by \$59 million, primarily due to Police raises,
- €# Issuance of pension obligation bonds for the first time for both the municipal and the police pension systems,
- €# Aviation's budget increased 29% over FY04's budget due to increased debt service related to major airport improvements becoming operational,
- €# Increased the water and sewer rates for the first time since 1994.

**CITY OF HOUSTON, TEXAS**

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

**June 30, 2004**  
*(amounts expressed in thousands)*

	Governmental		Business-type		Total	Component Units	
	Activities	Activities	Activities	Activities		Governmental	Business-type
<b>Assets</b>							
<b>Current Assets</b>							
Equity in pooled cash and investments	\$ 359,768	\$ 176,144	\$ 535,912	\$ 119,888	\$ 26,603		
Receivables, net of allowances							
Accounts receivable, net	103,588	75,421	179,009	12,606	10,599		
Hotel occupancy tax receivable	-	13,621	13,621	-	-		
Property taxes receivable, net	63,225	-	63,225	1,821	-		
Sales taxes receivable	60,438	-	60,438	-	-		
Mixed beverage taxes receivable	2,128	-	2,128	-	-		
Franchise taxes receivable	35,503	-	35,503	-	-		
Special assessments receivable	15,859	-	15,859	2,752	-		
Accrued Interest and other	-	-	-	341	59		
Internal balances	3,626	(3,626)	-	-	-		
Amounts due from component units	4,147	-	4,147	-	-		
Amounts due from primary government	-	-	-	734	-		
Due from other governments	20,617	-	20,617	-	-		
Inventory	19,837	9,082	28,919	-	380		
Prepaid items	1,537	1,830	3,367	26	3,645		
Restricted assets							
Investments	-	288,202	288,202	-	-		
Other receivables	-	54	54	-	-		
Due from other governments - grants	-	1,220	1,220	-	-		
Total current assets	<u>690,273</u>	<u>561,948</u>	<u>1,252,221</u>	<u>138,168</u>	<u>41,286</u>		
Noncurrent restricted assets							
Restricted cash and cash equivalents	-	-	-	-	222		
Amounts due from component units	-	314,200	314,200	-	-		
Investments	-	760,330	760,330	-	1,053		
Assessments receivable	-	100	100	-	-		
Amounts held by other governments	-	-	-	2,594	29,031		
Internal balances	163	(163)	-	-	-		
Amounts held by other governments	-	5,695	5,695	-	-		
Receivable and deposits	-	-	-	4	5,094		
Accrued interest receivable	-	-	-	-	580		
Deferred charges for issuance cost	9,731	49,861	59,592	2,367	-		
Amount available for debt service	-	-	-	1,534	2,814		
Total noncurrent restricted assets	<u>9,894</u>	<u>1,130,023</u>	<u>1,139,917</u>	<u>6,499</u>	<u>38,794</u>		
Other assets							
Water rights, net of amortization	-	197,150	197,150	-	-		
Other long-term receivables	-	2,954	2,954	-	4,563		
Garage rights	-	12,948	12,948	-	-		
Net pension asset	49,265	-	49,265	-	-		
Total other assets	<u>49,265</u>	<u>213,052</u>	<u>262,317</u>	<u>-</u>	<u>4,563</u>		
Capital Assets							
Land	354,944	400,059	755,003	19,666	-		
Buildings, improvements and equipment	1,064,313	3,232,211	4,296,524	5,455	293,159		
Plants, lines and rights	-	6,690,654	6,690,654	6,870	-		
Construction in progress	325,708	1,421,956	1,747,664	1,200	-		
Infrastructure assets	6,078,922	-	6,078,922	-	3,942		
Total capital assets	<u>7,823,887</u>	<u>11,744,880</u>	<u>19,568,767</u>	<u>33,191</u>	<u>297,101</u>		
Less accumulated depreciation							
Buildings, improvements and equipment	(535,800)	(1,072,666)	(1,608,466)	(681)	(1,017)		
Plants, lines and rights	-	(3,136,704)	(3,136,704)	-	-		
Infrastructure assets	(1,788,009)	-	(1,788,009)	-	-		
Accumulated depreciation	<u>(2,323,809)</u>	<u>(4,209,370)</u>	<u>(6,533,179)</u>	<u>(681)</u>	<u>(1,017)</u>		
Net capital assets	<u>5,500,078</u>	<u>7,535,510</u>	<u>13,035,588</u>	<u>32,510</u>	<u>296,084</u>		
Total noncurrent assets	<u>5,559,237</u>	<u>8,878,585</u>	<u>14,437,822</u>	<u>39,009</u>	<u>339,441</u>		
<b>Total assets</b>	<u>\$ 6,249,510</u>	<u>\$ 9,440,533</u>	<u>\$ 15,690,043</u>	<u>\$ 177,177</u>	<u>\$ 380,727</u>		

(Continued)

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

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

**June 30, 2004**  
*(amounts expressed in thousands)*

	Governmental		Business-type		Total		Component Units			
	Activities		Activities				Governmental	Business-type		
<b>Liabilities</b>										
<b>Current liabilities</b>										
Accounts payable	\$	45,893	\$	16,191	\$	62,084	\$	4,516	\$	2,760
Accrued payroll liabilities		40,077		7,799		47,876		-		905
Accrued interest payable		-		620		620		2,952		288
Contracts and retainages payable		10,461		17,681		28,142		6,844		6,144
Capital lease		1,090		-		1,090		-		-
Notes payable		-		-		-		5,705		300
Due to other governments		8,017		343		8,360		2,219		-
Advances and deposits		6,831		4,231		11,062		-		-
Claims and judgments		66,069		3,832		69,901		-		-
Compensated absences		47,928		10,699		58,627		-		-
Other liabilities		3,501		-		3,501		4,167		-
Deferred revenue		70,413		-		70,413		803		737
<b>Current liabilities payable from restricted assets</b>										
Accounts payable		-		5,058		5,058		-		-
Commercial paper		-		42,500		42,500		-		-
Accrued interest payable		22,111		65,807		87,918		2,111		-
Advances and deposits		-		22,752		22,752		7,088		-
Construction billings and retainages		-		122,119		122,119		5,914		-
Bonds payable		121,250		39,486		160,736		3,935		-
Other liabilities		1,470		-		1,470		-		-
Due to component units		-		18,291		18,291		-		-
Account held for component units		-		10,740		10,740		-		-
<b>Total current liabilities</b>		<b>445,111</b>		<b>388,149</b>		<b>833,260</b>		<b>46,254</b>		<b>11,134</b>
<b>Long-term liabilities</b>										
Capital lease		51,254		-		51,254		-		-
Notes payable		-		-		-		21,255		7,581
Revenue bonds payable		-		6,753,251		6,753,251		122,680		-
Claims and judgments		102,048		8,046		110,094		-		-
Compensated absences		290,235		13,460		303,695		-		-
Contracts payable		-		226,196		226,196		1,016		-
Bonds payable		1,950,310		-		1,950,310		-		-
Commercial paper		-		40,000		40,000		-		-
Arbitrage rebate		103		2,150		2,253		-		-
Other long-term liabilities		23,395		-		23,395		5,422		18,314
Due to City of Houston		-		-		-		4,147		314,200
Municipal pension trust liability		122,678		45,103		167,781		-		-
Police officers' pension trust liability		56,497		-		56,497		-		-
Deferred revenue		-		114,242		114,242		-		-
<b>Total long-term liabilities</b>		<b>2,596,520</b>		<b>7,202,448</b>		<b>9,798,968</b>		<b>154,520</b>		<b>340,095</b>
<b>Total liabilities</b>		<b>3,041,631</b>		<b>7,590,597</b>		<b>10,632,228</b>		<b>200,774</b>		<b>351,229</b>
<b>Net assets</b>										
Invested in capital assets, net of related debt		3,388,360		1,361,202		4,749,562		2,880		(8,023)
<b>Restricted net assets</b>										
Restricted for debt service		69,663		80,136		149,799		19,959		10,918
Restricted for renewal and replacement		-		34,532		34,532		344		-
Restricted for maintenance and operations		-		84,685		84,685		6,447		1,819
Restricted for others' capital improvement		-		-		-		-		-
Restricted for capital improvements		96,166		299,870		396,036		11,704		7,846
Other restricted		40,170		2,048		42,218		25,423		-
Unrestricted (deficit)		(386,480)		(12,537)		(399,017)		(90,354)		16,938
<b>Total net assets (deficit)</b>		<b>\$ 3,207,879</b>		<b>\$ 1,849,936</b>		<b>\$ 5,057,815</b>		<b>\$ (23,597)</b>		<b>\$ 29,498</b>

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

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

**For the Year Ended June 30, 2004**  
*(amounts expressed in thousands)*

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 234,176	\$ 18,047	\$ 4,386	\$ -
Public safety	902,527	137,886	15,163	-
Public works	251,423	42,695	12,509	46,337
Health	105,247	13,026	47,570	-
Housing and community development	62,956	-	58,811	-
Parks and recreation	63,156	6,122	2,634	-
Library	38,481	1,329	2,791	-
Retiree benefits	26,581	-	-	-
Interest on long-term debt	95,779	-	-	-
Depreciation (excludes direct deprec. exp.)	85,711	-	-	-
Total governmental activities	<u>1,866,037</u>	<u>219,105</u>	<u>143,864</u>	<u>46,337</u>
Business-type activities				
Airport System	315,929	270,413	-	42,000
Convention & Entertainment facilities	91,588	17,145	-	-
Combined Utility System	681,201	531,208	22,400	-
Houston Area Water Corporation	160	-	116	-
Total business-type activities	<u>1,088,878</u>	<u>818,766</u>	<u>22,516</u>	<u>42,000</u>
<b>Total primary government</b>	<u>\$ 2,954,915</u>	<u>\$ 1,037,871</u>	<u>\$ 166,380</u>	<u>\$ 88,337</u>
<b>Component Units</b>				
Governmental	46,406	1,183	6,019	-
Business-type	67,910	49,873	14,429	-
<b>Total component units activities</b>	<u>\$ 114,316</u>	<u>\$ 51,056</u>	<u>\$ 20,448</u>	<u>\$ -</u>

**General Revenues:**

Taxes

Property taxes levied for general purposes

Property taxes levied for debt service

Industrial assessments tax

Sales tax

Franchise tax

Mixed beverage tax

Bingo tax

Hotel occupancy tax

Investment earnings

Other

**Contributions**

**Special Items - gain (loss) on sale of assets**

**Transfers**

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

Change in net assets

Net assets (deficit) beginning

New component unit & restatement

Net assets (deficit) ending

(Continued)

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

Net (Expense) Revenue and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	Governmental	Business-type	
\$ (211,743)	\$ -	\$ (211,743)	\$ -	\$ -	
(749,478)	-	(749,478)	-	-	
(149,882)	-	(149,882)	-	-	
(44,651)	-	(44,651)	-	-	
(4,145)	-	(4,145)	-	-	
(54,400)	-	(54,400)	-	-	
(34,361)	-	(34,361)	-	-	
(26,581)	-	(26,581)	-	-	
(95,779)	-	(95,779)	-	-	
(85,711)	-	(85,711)	-	-	
<u>(1,456,731)</u>	<u>-</u>	<u>(1,456,731)</u>	<u>-</u>	<u>-</u>	
-	(3,516)	(3,516)	-	-	
-	(74,443)	(74,443)	-	-	
-	(127,593)	(127,593)	-	-	
-	(44)	(44)	-	-	
<u>-</u>	<u>(205,596)</u>	<u>(205,596)</u>	<u>-</u>	<u>-</u>	
<u>(1,456,731)</u>	<u>(205,596)</u>	<u>(1,662,327)</u>	<u>-</u>	<u>-</u>	
-	-	-	(39,204)	-	
-	-	-	-	(3,608)	
<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,204)</u>	<u>(3,608)</u>	
480,536	-	480,536	45,600	750	
165,000	-	165,000	-	-	
15,167	-	15,167	919	-	
347,982	-	347,982	-	-	
161,378	-	161,378	-	-	
8,095	-	8,095	-	-	
253	-	253	-	-	
-	47,223	47,223	-	-	
5,139	25,965	31,104	2,545	2,007	
31,894	30,561	62,455	782	3,252	
40,192	-	40,192	1,711	-	
3,095	(12,943)	(9,848)	(33)	-	
39,067	(39,067)	-	(6,681)	-	
<u>1,297,798</u>	<u>51,739</u>	<u>1,349,537</u>	<u>44,843</u>	<u>6,009</u>	
(158,933)	(153,857)	(312,790)	5,639	2,401	
3,366,812	2,003,793	5,370,605	(37,042)	27,097	
<u>\$ 3,207,879</u>	<u>\$ 1,849,936</u>	<u>\$ 5,057,815</u>	<u>\$ (23,597)</u>	<u>\$ 29,498</u>	

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

**CITY OF HOUSTON, TEXAS**  
**BALANCE SHEET — GOVERNMENTAL FUNDS**  
**June 30, 2004**  
*amounts expressed in thousands*

	General	Debt Service	Capital Projects
<b>Assets</b>			
Equity in pooled cash and investments	\$ 78,540	\$ 92,825	\$ 93,696
Receivables, net of allowances			
Accounts receivable	26,422	-	2,470
Property taxes receivable, net	63,225	-	-
Sales taxes receivable	60,438	-	-
Mixed beverage taxes receivable	2,128	-	-
Franchise taxes receivable	35,503	-	-
Special assessments receivable	15,859	-	-
Due from component units	-	4,112	35
Due from other funds	15,228	-	679
Due from other governments	-	-	-
Inventory	19,149	-	-
Prepaid items	1,537	-	-
Total assets	\$ 318,029	\$ 96,937	\$ 96,880
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	25,604	1,051	10,784
Accrued payroll liabilities	36,375	-	-
Contracts and retainages payable	272	-	7,381
Due to other funds	3,341	-	3,428
Due to other governments	7,855	-	-
Advances and deposits	5,836	-	32
Claims and judgments	4,089	-	-
Compensated absences	14,887	-	-
Other liabilities	-	-	-
Deferred revenue	84,045	4,112	-
Total liabilities	182,304	5,163	21,625
<b>Fund balance</b>			
Reserved for imprest cash and prepaids	1,667	-	46
Reserved for equipment acquisitions and other capital outlay	4,131	-	75,209
Reserved for inventory	19,149	-	-
Reserved for debt service	-	91,774	-
Unreserved	110,778	-	-
Special revenue funds	-	-	-
Total fund balance	135,725	91,774	75,255
<b>Total liabilities and fund balance</b>	\$ 318,029	\$ 96,937	\$ 96,880

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

Assets not available to pay for current-period expenditures are deferred in the funds.

Internal service funds are used by management to charge the cost of health, benefits and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.

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

Net assets of governmental activities

(Continued)

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

	Grants	Nonmajor Governmental Funds	Total
\$	20,446	\$ 65,180	\$ 350,687
	71,749	2,946	103,587
	-	-	63,225
	-	-	60,438
	-	-	2,128
	-	-	35,503
	-	-	15,859
	-	-	4,147
	433	2,461	18,801
	18,388	2,229	20,617
	685	3	19,837
	-	-	1,537
<u>\$</u>	<u>111,701</u>	<u>\$ 72,819</u>	<u>\$ 696,366</u>

	2,749	5,623	45,811
	1,451	2,159	39,985
	2,440	368	10,461
	5,787	3,377	15,933
	-	162	8,017
	-	963	6,831
	-	-	4,089
	865	989	16,741
	165	3,299	3,464
	94,024	116	182,297
<u></u>	<u>107,481</u>	<u>17,056</u>	<u>333,629</u>

	-	-	1,713
	-	-	79,340
	685	3	19,837
	3,535	-	95,309
	-	-	110,778
	-	55,760	55,760
	4,220	55,763	362,737
<u>\$</u>	<u>111,701</u>	<u>\$ 72,819</u>	

5,500,078

121,971

1,409

(2,778,316)

\$ 3,207,879

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

**CITY OF HOUSTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES and CHANGES in FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
*June 30, 2004*  
*amounts expressed in thousands*

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Revenues</b>			
Taxes and assessments	\$ 1,193,874	\$ -	\$ -
Licenses and permits	15,271	-	-
Charges for services	132,771	-	-
Intergovernmental - grants	11,826	-	46,337
Fines and forfeits	47,135	-	-
Contributions	2,433	-	-
Investment income	4,520	252	(124)
Other	15,900	2,071	986
Total revenues	<u>1,423,730</u>	<u>2,323</u>	<u>47,199</u>
<b>Expenditures</b>			
General government	118,411	-	42,842
Public safety	776,226	-	13,300
Public works	198,088	-	75,413
Health	51,121	-	-
Housing and Community Development	-	-	-
Parks and recreation	43,198	-	11,331
Library	32,456	-	5,561
Retiree benefits	26,581	-	-
Capital outlay	32,116	-	-
Debt service principal	1,028	114,291	-
Debt service interest	3,311	96,695	-
Debt service fiscal agent & fees	-	8,131	-
Total expenditures	<u>1,282,536</u>	<u>219,117</u>	<u>148,447</u>
<b>Other financing sources (uses)</b>			
Proceeds from issuance of debt	26,693	-	123,901
Proceeds from refunded debt	-	572,020	-
Bond premium	-	36,237	-
Transfers in	6,800	198,187	-
Transfers out	(174,998)	-	(4,501)
Payment to escrow agent for refunded bonds	-	(597,410)	-
Total other financing sources (uses)	<u>(141,505)</u>	<u>209,034</u>	<u>119,400</u>
Changes in fund balance	(311)	(7,760)	18,152
Fund balances, July 1	<u>136,036</u>	<u>99,534</u>	<u>57,103</u>
<b>Fund balances, June 30</b>	<u>\$ 135,725</u>	<u>\$ 91,774</u>	<u>\$ 75,255</u>

(Continued)

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

<b>Grants</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
-	\$ -	\$ 1,193,874
-	21,015	36,286
-	31,810	164,581
128,384	3,427	189,974
-	2,092	49,227
-	-	2,433
(367)	858	5,139
-	13,783	32,740
<u>128,017</u>	<u>72,985</u>	<u>1,674,254</u>
-	9,139	170,392
13,133	35,813	838,472
2,497	50,703	326,701
47,958	298	99,377
59,573	741	60,314
2,611	5,777	62,917
2,729	-	40,746
-	-	26,581
-	3,097	35,213
-	-	115,319
-	-	100,006
-	-	8,131
<u>128,501</u>	<u>105,568</u>	<u>1,884,169</u>
-	-	150,594
-	-	572,020
-	-	36,237
-	20,535	225,522
-	(4,505)	(184,004)
-	-	(597,410)
<u>-</u>	<u>16,030</u>	<u>202,959</u>
(484)	(16,553)	(6,956)
<u>4,704</u>	<u>72,316</u>	<u>369,693</u>
<u>\$ 4,220</u>	<u>\$ 55,763</u>	<u>\$ 362,737</u>

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



**CITY OF HOUSTON, TEXAS**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental  
Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004  
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds \$ (6,956)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation (\$147,155) was less than increase in capital assets (\$217,467) in the current period. 70,312

Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds. 112,240

Generally, governmental funds report revenue when cash is actually received , or is expected 60 days after the close of the fiscal year. Cash received during the period relates to prior periods. (130,249)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report, as expenditures, the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (44,257)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Governmental funds report payments as expenditures in the period of disbursement. The liquidation of long-term liabilities previously accrued should not be reported in the statement of activities. (159,638)

Internal service funds are used by management to change the costs of certain activities, such as the cost of health benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. (385)

Change in net assets of governmental activities \$ (158,933)

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

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Net Assets**  
**June 30, 2004**  
**amounts expressed in thousands**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Airport System</b>	<b>Convention &amp; Entertainment</b>	<b>Combined Utility</b>
<b>Assets</b>			
Equity in pooled cash and investments	\$ 20,004	\$ 29,613	\$ 126,527
Receivables, net of allowances			
Accounts receivable	15,449	733	59,239
Hotel occupancy tax receivable	-	13,621	-
Due from other funds	642	27	43
Inventory	3,389	-	5,693
Prepaid items	1,329	501	-
Restricted assets			
Investments	161,630	31,611	88,876
Other receivables	54	-	-
Due from other governments - grants	1,220	-	-
Total current assets	<u>203,717</u>	<u>76,106</u>	<u>280,378</u>
<b>Noncurrent Assets</b>			
Restricted assets			
Amounts due from component units	-	314,200	-
Investments	562,823	38,104	151,963
Assessments receivable	-	-	100
Due from other Funds	-	163	-
Amounts held by other governments	-	-	5,695
Deferred charges for issuance cost	-	4,651	43,524
Total restricted assets	<u>562,823</u>	<u>357,118</u>	<u>201,282</u>
Other assets			
Water rights, net of depreciation	-	-	197,150
Other long-term receivables	-	-	2,954
Garage rights, net of depreciation	-	12,948	-
Total other assets	<u>-</u>	<u>12,948</u>	<u>200,104</u>
Capital assets			
Land	170,087	130,493	99,479
Buildings, improvements and equipment	2,579,150	425,327	227,734
Plants, lines and rights	-	-	6,690,654
Construction in progress	703,073	23,943	568,534
Total capital assets	<u>3,452,310</u>	<u>579,763</u>	<u>7,586,401</u>
Less accumulated depreciation			
Buildings, improvements and equipment	(844,510)	(112,779)	(115,377)
Plants, lines and rights	-	-	(3,136,704)
Accumulated depreciation	<u>(844,510)</u>	<u>(112,779)</u>	<u>(3,252,081)</u>
Net capital assets	<u>2,607,800</u>	<u>466,984</u>	<u>4,334,320</u>
Total noncurrent assets	<u>3,170,623</u>	<u>837,050</u>	<u>4,735,706</u>
Total assets	<u>\$ 3,374,340</u>	<u>\$ 913,156</u>	<u>\$ 5,016,084</u>

(Continued)

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

<b>Business-type Activities-Enterprise Funds</b>		<b>Governmental Activities Internal Service Funds</b>
<b>Nonmajor</b>	<b>Total</b>	
\$ -	\$ 176,144	\$ 9,081
-	75,421	1
-	13,621	-
-	712	225
-	9,082	-
-	1,830	-
6,085	288,202	-
-	54	-
-	1,220	-
<u>6,085</u>	<u>566,286</u>	<u>9,307</u>
-	314,200	-
7,440	760,330	-
-	100	-
-	163	-
-	5,695	-
<u>1,686</u>	<u>49,861</u>	<u>-</u>
<u>9,126</u>	<u>1,130,349</u>	<u>-</u>
-	197,150	-
-	2,954	-
-	12,948	-
<u>-</u>	<u>213,052</u>	<u>-</u>
-	400,059	-
-	3,232,211	-
-	6,690,654	-
<u>126,406</u>	<u>1,421,956</u>	<u>-</u>
<u>126,406</u>	<u>11,744,880</u>	<u>-</u>
-	(1,072,666)	-
-	(3,136,704)	-
<u>-</u>	<u>(4,209,370)</u>	<u>-</u>
<u>126,406</u>	<u>7,535,510</u>	<u>-</u>
<u>135,532</u>	<u>8,878,911</u>	<u>-</u>
<u>\$ 141,617</u>	<u>\$ 9,445,197</u>	<u>\$ 9,307</u>

(Continued)

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

**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Net Assets**  
**June 30, 2004**  
**amounts expressed in thousands**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Airport System</u>	<u>Convention &amp; Entertainment</u>	<u>Combined Utility</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 4,721	\$ 2,057	\$ 9,409
Accrued payroll liabilities	2,656	265	4,878
Accrued interest payable	-	-	620
Contracts and retainages payable	-	-	17,681
Due to other funds	905	608	2,066
Due to other governments	-	3	340
Advances and deposits	3,746	485	-
Claims and judgments-workers' compensation	1,382	15	2,435
Compensated absences	1,620	276	8,803
Deferred revenue	-	-	-
Total current liabilities	<u>15,030</u>	<u>3,709</u>	<u>46,232</u>
<b>Current liabilities payable from restricted assets</b>			
Accounts payable	-	3,135	-
Revenue bonds payable	18,865	6,590	14,031
Commercial Paper	20,000	22,500	-
Accrued interest payable	48,628	6,330	8,625
Advances and deposits	272	-	22,480
Construction billings and retainages	75,139	3,694	41,348
Due to other funds	-	-	374
Due to Component Units	-	18,291	-
Account held for Component Units	-	10,740	-
Total current liabilities payable from restricted assets	<u>162,904</u>	<u>71,280</u>	<u>86,858</u>
<b>Long-term liabilities</b>			
Revenue bonds payable	2,131,529	637,589	3,854,722
Claims and judgments	5,690	-	2,356
Compensated absences	4,845	337	8,278
Contracts payable	-	-	226,196
Commercial paper	-	-	40,000
Arbitrage rebate	1,297	706	147
Net pension liability	15,248	1,689	28,166
Deferred revenue	-	11,248	102,994
Total long-term liabilities	<u>2,158,609</u>	<u>651,569</u>	<u>4,262,859</u>
Total liabilities	<u>2,336,543</u>	<u>726,558</u>	<u>4,395,949</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	668,742	109,201	583,259
Restricted net assets			
Restricted for debt service	40,229	39,907	-
Restricted for renewal and replacement	12,947	-	21,585
Restricted for maintenance and operations	31,337	-	54,059
Restricted for others' capital improvement	-	-	-
Restricted for capital improvements	282,494	17,376	-
Other restricted	2,048	-	-
Unrestricted	-	20,114	(38,768)
<b>Total net assets</b>	<u>\$ 1,037,797</u>	<u>\$ 186,598</u>	<u>\$ 620,135</u>

Cumulative liability resulting from internal service funds' undercharging proprietary funds

Net assets of business-type activities

(Continued)

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

<u>Business-type Activities-Enterprise Funds</u>		<u>Governmental Activities Internal Service Funds</u>
<u>Nonmajor</u>	<u>Total</u>	
\$ 4	\$ 16,191	\$ 82
-	7,799	92
-	620	-
-	17,681	-
-	3,579	15
-	343	-
-	4,231	-
-	3,832	7,116
-	10,699	128
-	-	356
<u>4</u>	<u>64,975</u>	<u>7,789</u>
1,923	5,058	-
-	39,486	-
-	42,500	-
2,224	65,807	-
-	22,752	-
1,938	122,119	-
-	374	-
-	18,291	-
-	10,740	-
<u>6,085</u>	<u>327,127</u>	<u>-</u>
129,411	6,753,251	-
-	8,046	820
-	13,460	-
-	226,196	-
-	40,000	-
-	2,150	-
-	45,103	-
-	114,242	-
<u>129,411</u>	<u>7,202,448</u>	<u>820</u>
<u>135,500</u>	<u>7,594,550</u>	<u>8,609</u>
-	1,361,202	-
-	80,136	-
-	34,532	-
-	85,396	-
-	-	-
-	299,870	-
-	2,048	-
6,117	(12,537)	698
<u>\$ 6,117</u>		<u>\$ 698</u>
	(711)	
	<u>\$ 1,849,936</u>	

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

**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**June 30, 2004**  
**amounts expressed in thousands**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Airport System</b>	<b>Convention &amp; Entertainment</b>	<b>Combined Utility</b>
<b>Operating Revenues</b>			
Landing area fees	\$ 57,011	\$ -	\$ -
Rentals, building and ground area	115,777	-	-
Parking	51,437	9,325	-
Concession	43,100	1,840	-
Other	3,088	-	-
Rental	-	5,980	-
Water/Sewer Billing	-	-	531,208
Health benefit premiums	-	-	-
Total operating revenue	<u>270,413</u>	<u>17,145</u>	<u>531,208</u>
<b>Operating Expenses</b>			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	168,923	28,791	266,718
Depreciation and amortization	88,371	14,077	209,608
Total operating expenses	<u>257,294</u>	<u>42,868</u>	<u>476,326</u>
Operating income (loss)	<u>13,119</u>	<u>(25,723)</u>	<u>54,882</u>
<b>Nonoperating revenue (expenses)</b>			
Investment income	5,967	13,109	6,889
Hotel occupancy tax	-	47,223	-
Other revenue	203	-	26,179
Loss on disposal of assets	(541)	-	(12,402)
Other expenses	-	(23,307)	-
Interest on long-term debt	(58,635)	(25,413)	(204,875)
Arbitrage expense recovery	4,323	-	-
Total nonoperating revenues (expenses)	<u>(48,683)</u>	<u>11,612</u>	<u>(184,209)</u>
Income (loss) before contributions and transfers	<u>(35,564)</u>	<u>(14,111)</u>	<u>(129,327)</u>
Contributions	42,000	2,451	22,400
Transfers in	-	3,754	-
Transfers out	-	(1,500)	(50,163)
Total transfers	<u>-</u>	<u>2,254</u>	<u>(50,163)</u>
Change in net assets	6,436	(9,406)	(157,090)
Liability resulting from internal service fund's undercharging proprietary funds			
Net change			
Total net assets, July 1	<u>1,031,361</u>	<u>196,004</u>	<u>777,225</u>
<b>Total net assets, June 30</b>	<u>\$ 1,037,797</u>	<u>\$ 186,598</u>	<u>\$ 620,135</u>

Cumulative liability resulting from internal service funds' undercharging proprietary funds

Total net assets business-type activities

(Continued)

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

<b>Business-type Activities Enterprise Funds</b>		<b>Governmental Activities Internal Service Funds</b>
<b>Non-Major Houston Area Water Corp.</b>	<b>Total</b>	
\$ -	\$ 57,011	\$ -
-	115,777	-
-	60,762	-
-	44,940	-
-	3,088	-
-	5,980	-
-	531,208	-
-	-	185,695
-	818,766	185,695
68	68	2,649
-	-	183,896
-	464,432	-
92	312,148	-
160	776,648	186,545
(160)	42,118	(850)
-	25,965	243
-	47,223	-
-	26,382	222
-	(12,943)	-
-	(23,307)	-
-	(288,923)	-
-	4,323	-
-	(221,280)	465
(160)	(179,162)	(385)
116	66,967	-
6,391	10,145	-
-	(51,663)	-
6,391	(41,518)	-
6,347	(153,713)	(385)
	(144)	
	(153,857)	
(230)	2,004,360	1,083
<u>\$ 6,117</u>	<u>1,850,503</u>	<u>\$ 698</u>
	(567)	
	<u>\$ 1,849,936</u>	

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



**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Cash Flows**  
**June 30, 2004**  
amounts expressed in thousands

	<b>Business-type Activities - Enterprise Funds</b>	
	<b>Airport System</b>	<b>Convention &amp; Entertainment</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 272,287	\$ 15,743
Payments to employees	(55,537)	(5,706)
Payments to suppliers	(64,180)	(35,278)
Internal activity-payments to other funds	(40,504)	(902)
Claims paid	(1,381)	(43)
Due from other governments	-	(9)
Other revenues	203	-
Other expenses	-	(12,843)
Net cash provided by (used in) operating activities	<u>110,888</u>	<u>(39,038)</u>
<b>Cash flows from investing activities</b>		
Interest income on investments	16,951	14,240
Purchase of investments	(241,811)	(49,540)
Proceeds from sale of investments	589,671	207,466
Net cash provided by (used in) investing activities	<u>364,811</u>	<u>172,166</u>
<b>Cash flows from capital and related financing activities</b>		
Retirement of revenue bonds	(17,985)	(6,265)
Proceeds received - Allen's Creek	-	-
Retirement of notes payable	-	-
Proceeds from issuance of revenue bonds	-	-
Retirement of commercial paper	-	-
Proceeds from issuance of commercial paper	20,000	-
Interest expense on revenue bonds	(101,855)	(20,833)
Interest expense on commercial paper	-	-
Interest expense on contracts payable	-	-
Retirement of contractual obligations	-	-
Advances and deposits on construction	1	-
Contributed capital	44,201	-
Acquisition of property, plant and equipment, net	(414,829)	(32,919)
Net cash provided by (used in) capital and related financing activities	<u>(470,467)</u>	<u>(60,017)</u>

(Continued)

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

<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
<b>Combined Utility</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 636,300	\$ -	\$ 924,330	\$ 185,695
(112,632)	-	(173,875)	(1,932)
(148,395)	-	(247,853)	(1,057)
(7,648)	-	(49,054)	(733)
(2,323)	-	(3,747)	(184,399)
-	-	(9)	-
27,785	-	27,988	-
-	(64)	(12,907)	-
<u>393,087</u>	<u>(64)</u>	<u>464,873</u>	<u>(2,426)</u>
16,919	501	48,611	243
(735,657)	(2,852)	(1,029,860)	-
997,469	34,687	1,829,293	-
<u>278,731</u>	<u>32,336</u>	<u>848,044</u>	<u>243</u>
(2,767,640)	-	(2,791,890)	-
-	-	-	-
-	-	-	-
3,025,946	-	3,025,946	-
(685,250)	-	(685,250)	-
310,000	-	330,000	-
(161,096)	-	(283,784)	-
(8,268)	(6,710)	(14,978)	-
(13,889)	2,236	(11,653)	-
(18,158)	-	(18,158)	-
-	4,270	4,271	-
-	-	44,201	-
<u>(244,325)</u>	<u>(32,068)</u>	<u>(724,141)</u>	<u>-</u>
<u>(562,680)</u>	<u>(32,272)</u>	<u>(1,125,436)</u>	<u>-</u>

(Continued)

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

**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Cash Flows**  
**June 30, 2004**  
amounts expressed in thousands

	<b>Business-type Activities - Enterprise Funds</b>	
	<b>Airport System</b>	<b>Convention &amp; Entertainment</b>
<b>Cash flows from noncapital financing activities</b>		
Promotional contract paid from hotel occupancy tax revenues to component units	-	(7,885)
Transfers	-	2,254
Other revenues	-	-
Payments to Hotel Corporation	-	(105,990)
Hotel occupancy tax revenue	-	44,447
Transfers to debt service fund	-	-
Transfers to other funds	-	-
Net cash provided by (used in) noncapital financing activities	-	(67,174)
Net increase (decrease) in cash and cash equivalents	5,232	5,937
Cash and cash equivalents, July 1	14,772	23,676
<b>Cash and cash equivalents, June 30</b>	<b>\$ 20,004</b>	<b>\$ 29,613</b>
<b>Non cash transactions</b>		
Amortization expense	-	-
Unrealized gain (loss) on investments	(10,984)	(1,131)
Contributions of capital assets	-	2,451
Capitalized interest expense	43,433	2,822
Gain (loss) on disposal of assets	(541)	-
Total non cash transactions	<b>\$ 31,908</b>	<b>\$ 4,142</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ 13,119	\$ (25,723)
Depreciation and amortization	88,371	14,077
Other revenues	203	-
Other expenses	-	(12,843)
Changes in assets and liabilities		
Accounts receivable and prepaids	591	(603)
Due from other funds	(620)	(10)
Due from other governments	-	-
Inventory and prepaid insurance	10	(500)
Accounts payable	(1,465)	(14,352)
Accrued payroll liabilities	751	52
Due to other funds	561	127
Due to other governments	-	(9)
Advances and deposits	1,728	(148)
Claims and judgments-workers' compensation	364	(38)
Compensated absences	(3)	56
Deferred revenue	-	(627)
Other long-term liabilities	7,278	1,503
Net cash provided by (used in) operating activities	<b>\$ 110,888</b>	<b>\$ (39,038)</b>

(Continued)

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

Business-type Activities - Enterprise Funds			Governmental Activities
Combined Utility	Nonmajor	Total	Internal Service Funds
-	-	(7,885)	-
-	-	2,254	-
-	-	-	222
-	-	(105,990)	-
-	-	44,447	-
(20,591)	-	(20,591)	-
(29,572)	-	(29,572)	-
<u>(50,163)</u>	<u>-</u>	<u>(117,337)</u>	<u>222</u>
58,975	-	70,144	(1,961)
<u>67,552</u>	<u>-</u>	<u>106,000</u>	<u>11,042</u>
<u>\$ 126,527</u>	<u>\$ -</u>	<u>\$ 176,144</u>	<u>\$ 9,081</u>
-	92	92	-
(10,029)	-	(22,144)	-
21,114	-	23,565	-
9,881	6,209	62,345	-
(12,402)	-	(12,943)	-
<u>\$ 8,564</u>	<u>\$ 6,301</u>	<u>\$ 50,915</u>	<u>\$ -</u>
\$ 54,882	\$ (160)	\$ 42,118	\$ (851)
209,608	92	312,148	-
27,785	-	27,988	-
-	-	(12,843)	-
3,239	-	3,227	-
8	-	(622)	(208)
2,573	-	2,573	-
1,001	-	511	-
(18,397)	-	(34,214)	(601)
583	-	1,386	14
1,436	4	2,128	(502)
-	-	(9)	-
(1,141)	-	439	-
246	-	572	(507)
(4,614)	-	(4,561)	17
102,994	-	102,367	212
12,884	-	21,665	-
<u>\$ 393,087</u>	<u>\$ (64)</u>	<u>\$ 464,873</u>	<u>\$ (2,426)</u>

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

**CITY OF HOUSTON, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2004**  
*amounts expressed in thousands*

	<u>Pension Trust</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash	\$ 11,863	\$ -
Equity in pooled cash and investments	-	5,365
Investments		
U.S. government and agency securities	88,750	-
Corporate bonds	100,820	-
Other fixed income securities	930,348	-
Commingled equity funds	291,694	-
Common and preferred stock	2,762,436	-
Real estate and partnerships	759,160	-
Short-term investment funds	576,472	-
Invested securities lending collateral	1,158,465	-
Receivables, net of allowances		
Accounts receivable	40,583	169
Contributions	4,804	-
Accrued interest and other	567,567	-
Other Assets	8,967	-
Land	541	-
Building	8,085	-
Total assets	<u>7,310,555</u>	<u>5,534</u>
<b>Liabilities</b>		
Accounts payable	83,869	5,404
Advances and deposits	-	130
Security lending collateral	860,877	-
Foreign funds contracts payable	540,069	-
Other liabilities	3,344	-
Total liabilities	<u>1,488,159</u>	<u>\$ 5,534</u>
<b>Net assets</b>		
Held in trust for pension benefits and other purposes	<u>\$ 5,822,396</u>	

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

**CITY OF HOUSTON, TEXAS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**For the Years Ended June 30, 2004**  
*amounts expressed in thousands*

	<b>2004</b>
<b>Additions</b>	
Contributions:	
City of Houston	\$ 122,430
Plan members	66,820
Total Contributions	189,250
Investment earnings	
Interest and dividends	160,602
Net increase in the fair value of investments	843,820
Total investment earnings	1,004,422
Less investment expense	(34,362)
Net investment earnings	970,060
Total additions	1,159,310
 <b>Deductions</b>	
Benefits	329,518
Refund of contributions	1,584
Administrative expense	13,545
Total deductions	344,647
Change in net assets	814,663
 Total net assets, July 1	5,007,733
Total net assets, June 30	\$ 5,822,396

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

CITY OF HOUSTON, TEXAS

