

In 2002, the Houston Texans, the NFL's 32nd franchise, took to the field in Reliant Stadium, a state-of-the-art facility featuring a retractable roof, grass playing surface and luxury suites. The stadium played host to Super Bowl XXXVIII in 2004.



## 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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Houston's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Firefighter's Relief and Retirement Pension Trust Fund, the Municipal Employees' Pension Trust Fund and the Police Officers' Pension Trust Fund, blended component units of the City, which, in aggregate, represent 100% of the assets of the pension trust funds, within the fiduciary funds. In addition we did not audit the financial statements of the nonmajor business-type enterprise fund, which represents 2% and 0% of the assets and revenues of business-type activities of the City. We also did not audit the financial statements of any governmental discretely presented component unit or any business-type discretely presented component unit, except for the Houston Convention Center Hotel Corporation, which represents 85% and 66%, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence

supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and aggregate remaining fund information of the City of Houston, Texas, as of June 30, 2005, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2006, on our consideration of the City of Houston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that 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 considered in assessing the results of our audit.

Deloitte & Touche LLP

February 6, 2006

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

**June 30, 2005**

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, 2005. Please read this information in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2004. 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, 2005 include:

- The assets of the City of Houston exceeded its liabilities at the close of the most recent fiscal year by \$4.5 billion.
- The City's total net assets decreased during the year by \$532 million.
- Unrestricted assets are a deficit of \$775 million.
- The City of Houston's total expenses were \$3.435 billion.
- Program revenues of \$1.512 billion reduced the net cost of the City's functions to be financed from the City's general revenues to \$1.923 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. 18-19) displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures, and changes in fund balances and governmental activities is provided on a separate schedule (see page 22).

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

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

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

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning: General fund – budget vs. actual (pgs. 112-115); general budget policies (pg. 117); and the City of Houston's progress in funding its obligation to provide pension benefits to its employees (pg. 118).

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Houston, on a government-wide basis, assets exceeded liabilities by \$4.5 billion at the close of the most recent fiscal year.

**Net Assets**  
**June 30, 2005**  
 (With comparative totals for 2004)  
 (in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 787	\$ 750	\$ 1,991	\$ 1,905	\$ 2,778	\$ 2,655
Capital assets	5,558	5,500	7,850	7,536	13,408	13,036
Total assets	<u>6,345</u>	<u>6,250</u>	<u>9,841</u>	<u>9,441</u>	<u>16,186</u>	<u>15,691</u>
Long-term liabilities	2,995	2,597	7,668	7,202	10,663	9,799
Other liabilities	511	445	486	389	997	834
Total liabilities	<u>3,506</u>	<u>3,042</u>	<u>8,154</u>	<u>7,591</u>	<u>11,660</u>	<u>10,633</u>
Net assets						
Invested in capital assets, net of related debt	3,532	3,388	1,138	1,361	4,670	4,749
Restricted	169	206	462	502	631	708
Unrestricted (deficit)	(862)	(386)	87	(13)	(775)	(399)
Total net assets	<u>\$ 2,839</u>	<u>\$ 3,208</u>	<u>\$ 1,687</u>	<u>\$ 1,850</u>	<u>\$ 4,526</u>	<u>\$ 5,058</u>

By far the largest portion of the City of Houston's net assets (103.2%) reflects its investment in capital assets (e.g., land, building, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Houston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Houston's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City of Houston's net assets (13.9%) represents resources that are subject to external restrictions on how they may be used.

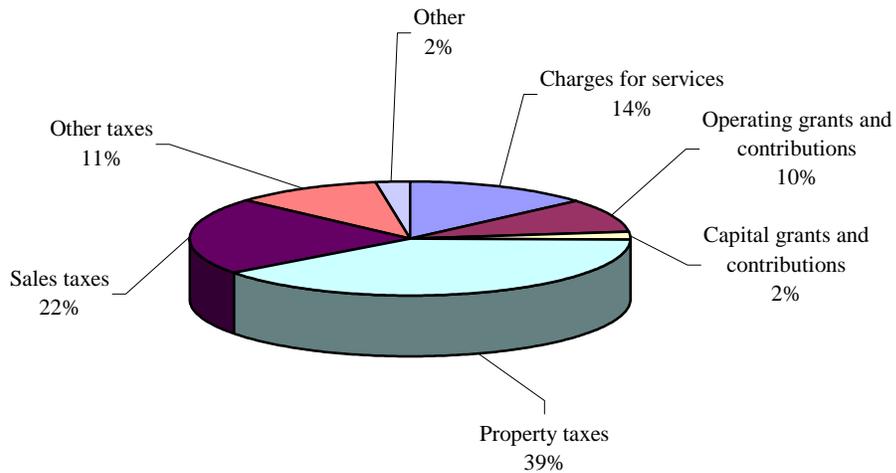
**Change in Net Assets**  
**June 30, 2005**  
(With comparative totals for 2004)  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues:						
Charges for services	\$ 229	\$ 219	\$ 972	\$ 819	\$ 1,201	\$ 1,038
Operating grants and contributions	162	144	4	22	166	166
Capital grants and contributions	38	46	106	42	144	88
General revenues:						
Property taxes	665	646	-	-	665	646
Sales taxes	371	348	-	-	371	348
Other taxes	186	185	42	47	228	232
Other	41	37	74	57	115	94
Total revenues	<u>1,692</u>	<u>1,625</u>	<u>1,198</u>	<u>987</u>	<u>2,890</u>	<u>2,612</u>
Expenses:						
General government	144	234	-	-	144	234
Public safety	1,128	903	-	-	1,128	903
Public works	283	251	-	-	283	251
Health	124	105	-	-	124	105
Housing and community development	79	63	-	-	79	63
Parks and recreation	84	63	-	-	84	63
Library	49	38	-	-	49	38
Retiree benefits	29	27	-	-	29	27
Interest on Long-term Debt	116	96	-	-	116	96
Depreciation and amortization	96	86	-	-	96	86
Airport System	-	-	407	316	407	316
Convention & Entertainment Facilities	-	-	134	92	134	92
Combined Utility System	-	-	762	681	762	681
Total expenses	<u>2,132</u>	<u>1,866</u>	<u>1,303</u>	<u>1,089</u>	<u>3,435</u>	<u>2,955</u>
Change in net assets before contributions, special items and transfers	(440)	(241)	(105)	(102)	(545)	(343)
Contributions	11	40	-	-	11	40
Special items	2	3	-	(13)	2	(10)
Transfers	58	39	(58)	(39)	-	-
Change in net assets	<u>(369)</u>	<u>(159)</u>	<u>(163)</u>	<u>(154)</u>	<u>(532)</u>	<u>(313)</u>
Net assets July 1	<u>3,208</u>	<u>3,367</u>	<u>1,850</u>	<u>2,004</u>	<u>5,058</u>	<u>5,371</u>
Net assets June 30	<u>\$ 2,839</u>	<u>\$ 3,208</u>	<u>\$ 1,687</u>	<u>\$ 1,850</u>	<u>\$ 4,526</u>	<u>\$ 5,058</u>

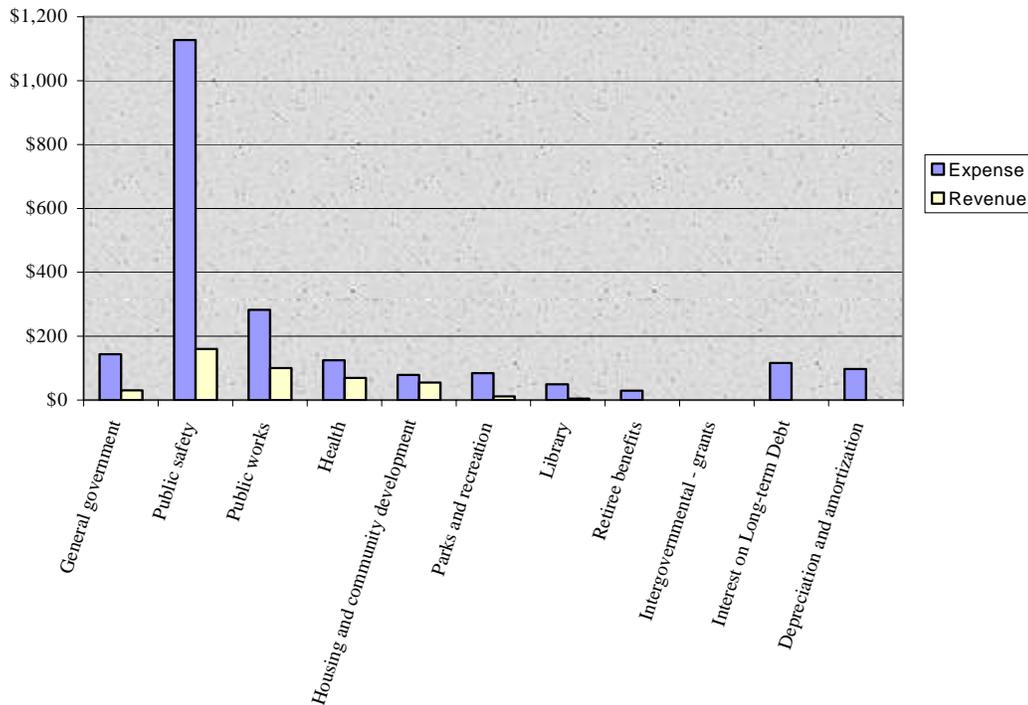
**Governmental activities.** Governmental activities decreased the City of Houston's net assets by \$369 million. Key elements of this change are as follows:

- Sales tax revenue continued to show improvements during fiscal year 2005 providing a 7% increase for the year, from \$348 million to \$371 million.
- The City's property tax rate was lowered by \$.005 to \$0.65 per \$100 assessed value. Property tax revenue increased by \$19 million because of the City's rising property values and continued effort in the collection of delinquent taxes.
- The largest increase in expenses was in the area of public safety - \$225 million. This was offset by a decrease in General Government expenses - \$90 million.
- Retiree benefits were up 7% from \$27 million to \$29 million, reflecting the overall issue of increased health care costs.

**Revenue by Source - Governmental Activities**



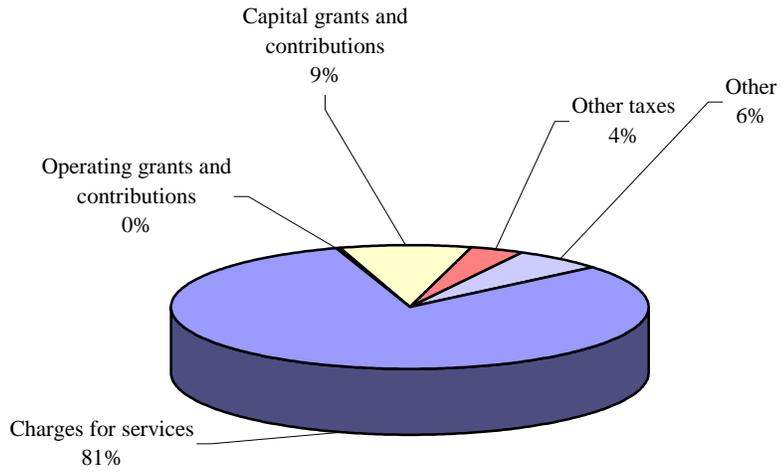
**Program Revenue and Expense  
Governmental**



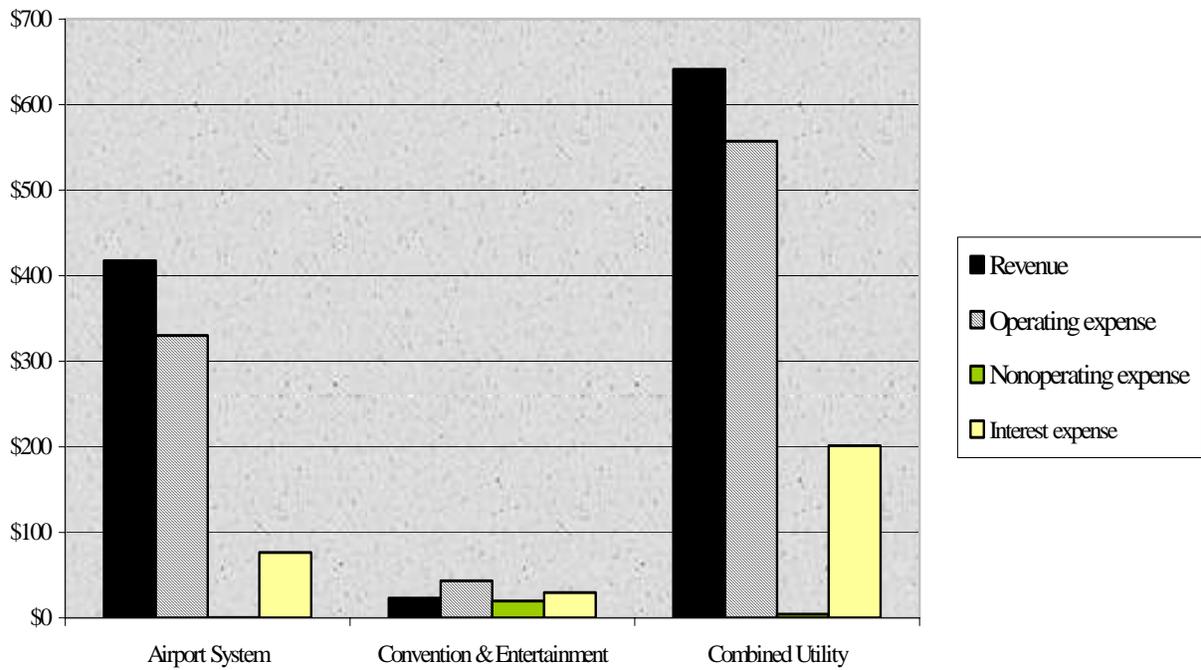
**Business-type activities.** Business-type activities decreased the City of Houston’s net assets by \$163 million. Key elements of this change are as follows:

- Airport systems operating expenses were up by 28%, from \$257 million to \$330 million. Operating revenues for these facilities were up by 31%, from \$270 million to \$354 million. Investment income increased by 150% from \$6 million to \$15 million.
- Convention & Entertainment operating expenses were relatively the same at \$43 million. Operating revenues increased by 12% from \$17 million to \$19 million. Hotel occupancy taxes decreased by 11%, from \$47 million to \$42 million. Contributions out reflect a donation of \$41.4 million of land to the Houston Downtown Park Corporation for the purpose of building a park across the street from the George R. Brown Convention Center. The Convention and Entertainment Fund had purchased the property over a two-year period for this purpose.
- The Combined Utility System operating expenses increased by 17% from \$476 million to \$557 million. Operating revenues increased by 13% from \$531 million to \$599 million. Investment income was up by 86%, from \$7 million to \$13 million and interest expense was down by 2%, from \$205 million to \$201 million. Also, contributions were up 91%, from \$22 million to \$42 million.

**Revenue by Source Business-type**



**Program Revenue & Expense Business-type**



## **Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City of Houston's governmental funds reported combined ending fund balances of \$438 million. Approximately 48% of this total amount (\$210 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 (\$97 million), (2) to pay debt service (\$109 million), or (3) a variety of other restricted purposes (\$21.5 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 \$142.7 million, while the total fund balance reached \$170 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 10.6% of total general fund expenditures, while total fund balance represents 12.7% of that same amount.

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

- \$37 million increase in total revenues
- \$59 million increase in expenditures
- \$84.5 million increase in proceeds for issuance of debt
- \$5.8 million decrease in transfers from other funds
- \$3.1 million increase in interest expenditures
- \$22 million increase in transfers to other funds

The debt service fund has a total fund balance of \$107 million, all of which is reserved for the payment of debt service. The net increase in fund balance during the current fiscal year in the debt service fund was \$15 million. Interest expenditures decreased by \$9 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 \$90.5 million. The net increase in fund balance during the current fiscal year was \$15 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 \$3 million.

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

At the end of the year, unrestricted net assets were \$0 for the Airport System, \$19.2 million for Convention and Entertainment, \$68 million for the Combined Utility System and \$75 thousand for the Houston Area Water Corporation. The total increase in net assets for the Airport System and the Houston Area Water Corporation funds were \$31 million and \$27 million, respectively. The Combined Utility System and the Convention and Entertainment funds experienced decreases of \$171 million and \$50

million, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Houston's business-type activities.

### General Fund Budgetary Highlights

Total revenues were below of budget (pgs. 112-115), by \$1 million. The details of the more significant variances are detailed below:

- \$2 million increase in franchise taxes
- \$2 million increase in license and permits
- \$5 million decrease in direct services for other funds
- \$1 million increase in municipal courts fines and forfeits
- \$2 million decrease in other fines and forfeits
- \$1 million increase in interest
- \$1 million decrease in ambulance fees
- \$4 million increase in other revenues

Total expenditures for the General Fund were \$36 million below the final expenditure budget. The details of the more significant variances are detailed below:

- \$3 million decrease in total general government expenditures
- \$28 million decrease in public safety expenditures
- \$1 million decrease in debt service interest

### Capital Asset and Debt Administration

**Capital assets** (see Note 6, Capital Assets, pages 71–72). The City of Houston's investment in capital assets for its governmental and business-type activities as of June 30, 2005, 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 3% (a 1% increase for governmental activities and a 4% increase for business-type activities).

#### Capital Assets

June 30, 2005

(With comparative totals for 2004)

(net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 362	\$ 355	\$ 394	\$ 400	\$ 756	\$ 755
Buildings, improvements and equipment	554	528	2,618	2,160	3,172	2,688
Plants, lines and rights	-	-	3,585	3,554	3,585	3,554
Construction in progress	354	326	1,253	1,422	1,607	1,748
Infrastructure Assets	4,288	4,291	-	-	4,288	4,291
Total	\$ 5,558	\$ 5,500	\$ 7,850	\$ 7,536	\$ 13,408	\$ 13,036

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

- Governmental and Business-type activities construction in process balance reflects a \$141 million decrease.
- Governmental and Business-type activities land balance reflects a \$1 million increase.
- Business-type activities buildings, improvements and equipment balance reflect a \$458 million increase.
- Business-type activities plants, lines and rights balance reflects a \$31 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 73–90). At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of \$10.2 billion. The two largest portions of this total are made up of \$2.4 billion comprising debt backed by the full faith and credit of the government and \$7.0 billion comprising various enterprise fund revenue bonds which are payable from future revenues of the various operations of those enterprise funds. The City issued \$357 million in pension bonds during the fiscal year to reduce the unfunded liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. The remainder of the City of Houston's debt represents various long-term contracts and capital leases.

**Outstanding Debt**  
**June 30, 2005**  
 (With comparative totals for 2004)  
 (in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds and commercial paper	\$ 2,155	\$ 2,072	\$ 251	\$ -	\$ 2,406	\$ 2,072
Pension notes	262	-	95	-	357	-
Inferior lien contract	-	-	60	-	60	-
Capital lease	51	52	-	-	51	52
Revenue bonds	-	-	6,996	6,873	6,996	6,873
Other borrowings	23	25	267	246	290	271
<b>Total</b>	<b>\$ 2,491</b>	<b>\$ 2,149</b>	<b>\$ 7,669</b>	<b>\$ 7,119</b>	<b>\$ 10,160</b>	<b>\$ 9,268</b>

The City's total debt increased by \$892 million or 9.6% during the current fiscal year.

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

- \$357 million of pension obligations to reduce unfunded accrued actuarial liability.
- \$178 million of general obligation debt to refund commercial paper and to fund a judgment.
- \$181 million of combined utility system revenue bonds to improve the system and refund commercial paper.
- \$93 million of airport system revenue bonds to refund prior debt to provide present value savings.

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 \$12.2 billion, which is significantly in excess of the City of Houston's outstanding general obligation debt.

### **Next Year's Budget and Rates**

Highlights of the FY06 budget are as follows:

- Decreased the property tax rate by ¼ cent to 64.75 cents per \$100 of valuation and increased the homestead exemption for seniors.
- Increased the public safety budget by \$48 million, primarily due to Firefighter raises, two new fire stations and three new police academy classes.

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

**June 30, 2005**  
*(amounts expressed in thousands)*

	Governmental Activities	Business-type Activities	Total	Component Units	
				Governmental	Business-type
<b>Assets</b>					
Equity in pooled cash and investments	\$ 453,344	\$ 1,181,915	\$ 1,635,259	\$ 109,740	\$ 36,215
Receivables, net of allowances					
Accounts receivable	63,152	100,904	164,056	39,388	16,292
Hotel occupancy tax receivable	-	12,902	12,902	-	-
Property taxes receivable	59,371	-	59,371	1,100	-
Sales taxes receivable	64,464	-	64,464	-	-
Mixed beverage taxes receivable	2,224	-	2,224	-	-
Franchise taxes receivable	34,238	-	34,238	-	-
Special assessments receivable	9,823	97	9,920	24	-
Accrued Interest and other	-	1,651	1,651	1,016	122
Due from component units	5,355	314,115	319,470	-	-
Internal balances	(6,617)	6,617	-	-	-
Due from other governments	39,244	17,342	56,586	-	1,401
Inventory	19,839	10,045	29,884	6,417	363
Prepaid items	1,570	1,839	3,409	103	1,752
Deferred charges for issuance cost	10,998	54,203	65,201	4,898	3,811
Restricted assets					
Investments	-	39,563	39,563	2,981	2,880
Assessments receivable	-	-	-	8,960	-
Accrued interest receivable	-	-	-	-	510
Amounts held by other government	-	-	-	-	22,957
Receivable and deposits	-	-	-	-	3,949
Other assets					
Water rights, net of amortization	-	225,450	225,450	-	-
Other long-term receivables	-	12,266	12,266	-	4,316
Garage rights, net of amortization	-	12,611	12,611	-	-
Fire fighter's pension trust asset	29,742	-	29,742	-	-
Capital Assets					
Land	362,162	393,818	755,980	78,508	11,488
Buildings, improvements and equipment	1,126,470	3,807,175	4,933,645	14,400	293,874
Plants, lines and rights	-	6,910,094	6,910,094	-	-
Construction in progress	353,578	1,252,820	1,606,398	218	2,525
Infrastructure assets	6,169,653	-	6,169,653	-	-
Less accumulated depreciation					
Buildings, improvements and equipment	(572,821)	(1,188,823)	(1,761,644)	(6,186)	(22,982)
Plants, lines and rights	-	(3,324,975)	(3,324,975)	-	-
Infrastructure assets	(1,881,237)	-	(1,881,237)	-	-
<b>Total assets</b>	<b>\$ 6,344,552</b>	<b>\$ 9,841,629</b>	<b>\$ 16,186,181</b>	<b>\$ 261,567</b>	<b>\$ 379,473</b>

(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, 2005**  
*(amounts expressed in thousands)*

	Governmental Activities		Business-type Activities		Total	Component Units	
	Governmental	Business-type	Governmental	Business-type			
<b>Liabilities</b>							
Accounts payable and accrued expenditures	\$ 70,999	\$ 26,513	\$ 97,512	\$ 9,629	\$ 9,733		
Accrued payroll liabilities	28,449	2,561	31,010	2	893		
Accrued interest payable	42,951	82,483	125,434	3,309	3,565		
Contracts and retainages payable	24,397	98,160	122,557	10,821	742		
Due to component units	-	23,518	23,518	-	-		
Due to other governments	11,001	770	11,771	211	6,750		
Advances and deposits	10,818	29,558	40,376	5,296	-		
Other liabilities	307	-	307	3,012	-		
Unearned revenue	25,999	125,072	151,071	2,030	17,978		
Noncurrent liabilities							
Due within one year							
Capital lease	1,156	-	1,156	-	-		
Notes payable	-	-	-	10,846	1,320		
Revenue bonds payable	-	64,066	64,066	2,835	-		
Claims and judgments	56,645	3,728	60,373	-	-		
Compensated absences	115,696	8,105	123,801	8	-		
Contracts payable	-	18,505	18,505	-	-		
Arbitrage rebate	74	-	74	-	-		
Bonds payable	120,585	-	120,585	-	-		
Inferior lien contracts	-	3,255	3,255	-	-		
Other liabilities	1,515	-	1,515	-	-		
Due in more than one year							
Capital lease due in more than one year	50,097	-	50,097	-	-		
Notes payable	-	-	-	24,703	2,625		
Revenue bonds payable	-	6,931,654	6,931,654	110,215	-		
Claims and judgments	99,786	4,149	103,935	-	-		
Compensated absences	234,992	15,654	250,646	-	-		
Contracts payable	-	248,294	248,294	5,709	-		
Bonds payable	1,587,815	-	1,587,815	-	-		
Inferior lien contracts	-	56,810	56,810	-	-		
Commercial paper	445,700	251,000	696,700	-	-		
Arbitrage rebate	12	1,048	1,060	-	-		
Other long-term liabilities	21,880	-	21,880	10,552	337		
Collateralized note payable	210,300	89,700	300,000	-	-		
Due to City of Houston	-	-	-	5,355	308,127		
Municipal pension trust liability	167,081	64,063	231,144	-	-		
Police officers' pension trust liability	125,745	-	125,745	-	-		
Pension obligation bonds payable	51,588	5,577	57,165	-	-		
<b>Total liabilities</b>	<b>3,505,588</b>	<b>8,154,243</b>	<b>11,659,831</b>	<b>204,533</b>	<b>352,070</b>		
<b>Net assets</b>							
Invested in capital assets, net of related debt	3,531,764	1,138,154	4,669,918	78,956	(12,723)		
Restricted net assets							
Restricted for debt service	64,302	47,728	112,030	18,732	6,719		
Restricted for renewal and replacement	-	12,852	12,852	-	-		
Restricted for maintenance and operations	-	106,557	106,557	5,145	-		
Restricted for capital improvements	101,532	292,416	393,948	7,154	-		
Other restricted	2,969	2,185	5,154	21,443	10,459		
Unrestricted (deficit)	(861,603)	87,494	(774,109)	(74,396)	22,948		
<b>Total net assets (deficit)</b>	<b>\$ 2,838,964</b>	<b>\$ 1,687,386</b>	<b>\$ 4,526,350</b>	<b>\$ 57,034</b>	<b>\$ 27,403</b>		

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

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

**For the Fiscal Year Ended June 30, 2005  
(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	\$ 143,477	\$ 25,074	\$ 4,914	\$ -
Public safety	1,127,663	139,814	20,031	-
Public works	282,767	43,652	19,261	37,591
Health	124,267	13,624	55,446	-
Housing and community development	78,867	-	54,186	-
Parks and recreation	83,945	6,009	5,554	-
Library	49,084	1,187	2,918	-
Retiree benefits	28,997	-	-	-
Interest on long-term debt	116,180	-	-	-
Unallocated Depreciation	96,355	-	-	-
Total governmental activities	<u>2,131,602</u>	<u>229,360</u>	<u>162,310</u>	<u>37,591</u>
Business-type activities				
Airport System	406,908	353,641	-	63,989
Convention & Entertainment facilities	133,622	19,175	4,106	-
Combined Utility System	762,209	598,874	-	42,495
Houston Area Water Corporation	169	-	191	-
Total business-type activities	<u>1,302,908</u>	<u>971,690</u>	<u>4,297</u>	<u>106,484</u>
<b>Total primary government</b>	<u>\$ 3,434,510</u>	<u>\$ 1,201,050</u>	<u>\$ 166,607</u>	<u>\$ 144,075</u>
<b>Component Units</b>				
Governmental	67,930	2,452	59,599	41,386
Business-type	101,262	74,925	12,152	-
<b>Total component units activities</b>	<u>\$ 169,192</u>	<u>\$ 77,377</u>	<u>\$ 71,751</u>	<u>\$ 41,386</u>

**General Revenues:**

Taxes

Property taxes levied for general purposes/tax increments

Property taxes levied for debt service

Industrial assessments tax

Sales tax

Franchise tax

Mixed beverage tax

Bingo tax

Hotel occupancy tax

Investment earnings

Other

**Contributions**

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

**Transfers**

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

Change in net assets

Net assets (deficit) beginning

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					
Governmental Activities	Business-type Activities	Total	Component Units		
			Governmental	Business-type	
\$ (113,489)	\$ -	\$ (113,489)	\$ -	\$ -	
(967,818)	-	(967,818)	-	-	
(182,263)	-	(182,263)	-	-	
(55,197)	-	(55,197)	-	-	
(24,681)	-	(24,681)	-	-	
(72,382)	-	(72,382)	-	-	
(44,979)	-	(44,979)	-	-	
(28,997)	-	(28,997)	-	-	
(116,180)	-	(116,180)	-	-	
(96,355)	-	(96,355)	-	-	
<u>(1,702,341)</u>	<u>-</u>	<u>(1,702,341)</u>	<u>-</u>	<u>-</u>	
-	10,722	10,722	-	-	
-	(110,341)	(110,341)	-	-	
-	(120,840)	(120,840)	-	-	
-	22	22	-	-	
<u>-</u>	<u>(220,437)</u>	<u>(220,437)</u>	<u>-</u>	<u>-</u>	
<u>(1,702,341)</u>	<u>(220,437)</u>	<u>(1,922,778)</u>	<u>-</u>	<u>-</u>	
-	-	-	35,507	-	
-	-	-	-	(14,185)	
<u>-</u>	<u>-</u>	<u>-</u>	<u>35,507</u>	<u>(14,185)</u>	
476,831	-	476,831	39,109	750	
188,000	-	188,000	-	-	
14,635	-	14,635	-	-	
370,583	-	370,583	-	-	
162,263	-	162,263	-	-	
8,343	-	8,343	-	-	
270	-	270	-	-	
-	42,266	42,266	-	-	
13,179	43,866	57,045	3,032	2,101	
27,652	30,138	57,790	2,923	9,239	
11,216	-	11,216	60	-	
2,071	-	2,071	-	-	
58,383	(58,383)	-	-	-	
<u>1,333,426</u>	<u>57,887</u>	<u>1,391,313</u>	<u>45,124</u>	<u>12,090</u>	
<u>(368,915)</u>	<u>(162,550)</u>	<u>(531,465)</u>	<u>80,631</u>	<u>(2,095)</u>	
<u>3,207,879</u>	<u>1,849,936</u>	<u>5,057,815</u>	<u>(23,597)</u>	<u>29,498</u>	
<u>\$ 2,838,964</u>	<u>\$ 1,687,386</u>	<u>\$ 4,526,350</u>	<u>\$ 57,034</u>	<u>\$ 27,403</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, 2005**  
*amounts expressed in thousands*

	General	Debt Service	Capital Projects
<b>Assets</b>			
Equity in pooled cash and investments	\$ 111,743	\$ 108,008	\$ 112,233
Receivables, net of allowances			
Accounts receivable	31,332	-	1,298
Property taxes receivable	59,371	-	-
Sales taxes receivable	64,464	-	-
Mixed beverage taxes receivable	2,224	-	-
Franchise taxes receivable	34,238	-	-
Special assessments receivable	9,823	-	-
Due from component units	-	5,355	-
Due from other funds	6,352	-	2,403
Due from other governments	3,297	-	10,060
Inventory	19,143	-	-
Prepaid items	1,570	-	-
Total assets	\$ 343,557	\$ 113,363	\$ 125,994
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	24,758	755	1,462
Accrued payroll liabilities	26,539	-	-
Contracts and retainages payable	217	-	22,147
Due to other funds	12,526	389	834
Due to other governments	10,990	-	-
Advances and deposits	5,282	-	19
Claims and judgments	2,084	-	-
Compensated absences	3,038	-	-
Other liabilities	-	-	-
Unearned revenue	87,979	5,355	10,993
Total liabilities	173,413	6,499	35,455
<b>Fund balance</b>			
Reserved for imprest cash and prepaids	1,691	-	-
Reserved for equipment acquisitions and other capital outlay	6,615	-	90,539
Reserved for inventory	19,143	-	-
Reserved for debt service	-	106,864	-
Unreserved	142,695	-	-
Total fund balance	170,144	106,864	90,539
<b>Total liabilities and fund balance</b>	<b>\$ 343,557</b>	<b>\$ 113,363</b>	<b>\$ 125,994</b>

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

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

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

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

Net assets of governmental activities

(Continued)

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

<u>Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 770	74,453	\$ 407,207
13,491	1,495	47,616
-	-	59,371
-	-	64,464
-	-	2,224
-	-	34,238
-	-	9,823
-	-	5,355
126	2,722	11,603
24,795	1,092	39,244
693	3	19,839
-	-	1,570
<u>\$ 39,875</u>	<u>\$ 79,765</u>	<u>\$ 702,554</u>

5,251	4,191	36,417
1,312	573	28,424
1,558	475	24,397
2,533	2,650	18,932
-	12	11,002
-	3,377	8,678
-	-	2,084
144	7	3,189
186	121	307
<u>25,923</u>	<u>665</u>	<u>130,915</u>
<u>36,907</u>	<u>12,071</u>	<u>264,345</u>

-	-	1,691
-	-	97,154
693	3	19,839
2,275	-	109,139
-	67,691	210,386
<u>2,968</u>	<u>67,694</u>	<u>438,209</u>
<u>\$ 39,875</u>	<u>\$ 79,765</u>	

5,557,805

131,856

2,006

(3,290,912)

\$ 2,838,964

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

**CITY OF HOUSTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES and CHANGES in FUND BALANCES—**  
**GOVERNMENTAL FUNDS**  
*For the Fiscal Year Ended June 30, 2005*  
*amounts expressed in thousands*

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Revenues</b>			
Taxes and assessments	\$ 1,227,388	\$ -	\$ -
Licenses and permits	17,692	-	-
Charges for services	120,181	-	-
Intergovernmental - grants	19,993	-	20,095
Fines and forfeits	51,251	-	-
Contributions	1,780	-	-
Investment income	6,541	2,458	2,063
Other	15,938	1,203	1,421
Total revenues	<u>1,460,764</u>	<u>3,661</u>	<u>23,579</u>
<b>Expenditures</b>			
Current Expenditures			
General government	105,091	-	49,697
Public safety	835,130	-	24,803
Public works	196,413	-	64,915
Health	50,311	-	-
Housing and Community Development	-	-	-
Parks and recreation	47,592	-	12,105
Library	33,222	-	3,143
Retiree benefits	28,997	-	-
Capital outlay	37,163	-	-
Debt Service			
Debt service principal	1,090	138,517	-
Debt service interest	6,443	87,745	-
Debt service fiscal agent & fees	-	3,316	-
Total expenditures	<u>1,341,452</u>	<u>229,578</u>	<u>154,663</u>
<b>Other financing sources (uses)</b>			
Proceeds from issuance of debt	111,205	1,837	160,000
Proceeds from refunded debt	-	173,062	-
Bond premium	-	10,546	-
Transfers in	1,029	239,128	352
Transfers out	(197,127)	-	(13,984)
Payment to escrow agent for refunded bonds	-	(183,566)	-
Total other financing sources (uses)	<u>(84,893)</u>	<u>241,007</u>	<u>146,368</u>
Changes in fund balance	34,419	15,090	15,284
Fund balances, July 1	<u>135,725</u>	<u>91,774</u>	<u>75,255</u>
<b>Fund balances, June 30</b>	<u>\$ 170,144</u>	<u>\$ 106,864</u>	<u>\$ 90,539</u>

(Continued)

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

Grants	Nonmajor Governmental Funds	Total
-	\$ -	\$ 1,227,388
-	22,548	40,240
-	36,109	156,290
142,960	4,324	187,372
-	2,213	53,464
-	-	1,780
400	1,717	13,179
-	11,883	30,445
<u>143,360</u>	<u>78,794</u>	<u>1,710,158</u>
-	8,950	163,738
18,332	28,936	907,201
2,771	52,329	316,428
53,642	436	104,389
55,773	1,303	57,076
5,259	5,764	70,720
2,908	-	39,273
-	-	28,997
-	2,233	39,396
-	-	139,607
-	-	94,188
-	-	3,316
<u>138,685</u>	<u>99,951</u>	<u>1,964,329</u>
-	1,679	274,721
-	-	173,062
-	-	10,546
575	37,659	278,743
(6,502)	(6,250)	(223,863)
-	-	(183,566)
<u>(5,927)</u>	<u>33,088</u>	<u>329,643</u>
(1,252)	11,931	75,472
<u>4,220</u>	<u>55,763</u>	<u>362,737</u>
<u>\$ 2,968</u>	<u>\$ 67,694</u>	<u>\$ 438,209</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, 2005  
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds \$ 75,472

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 (\$150,382) was less than the increase in capital assets (\$208,109) in the current period. 57,727

Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds. 97,463

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. (88,845)

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. (341,867)

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. (169,461)

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. 596

Change in net assets of governmental activities \$ (368,915)

\* 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, 2005**  
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>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 46,753	\$ 28,009	\$ 188,093
Equity in pooled cash and investments	547,450	36,049	335,485
Receivables, net of allowances			
Accounts receivable	30,456	755	69,693
Hotel occupancy tax receivable	-	12,902	-
Special assessments receivable	-	-	97
Accrued interest and other	1,651	-	-
Due from component units	-	314,115	-
Due from other funds	5,032	447	5,489
Due from other governments	10,967	-	6,375
Inventory	3,441	-	6,604
Prepaid items	1,400	439	-
Restricted assets			
Investments	6,696	21,774	3,765
Total current assets	653,846	414,490	615,601
<b>Noncurrent Assets</b>			
Deferred charges for issuance cost	1,960	4,337	46,281
Other assets			
Water rights, net of amortization	-	-	225,450
Other long-term receivables	-	-	12,266
Garage rights, net of amortization	-	12,611	-
Total other assets	-	12,611	237,716
Capital assets			
Land	193,210	99,757	100,851
Buildings, improvements and equipment	3,150,188	431,495	225,492
Plants, lines and rights	-	-	6,910,094
Construction in progress	437,613	20,866	637,389
Less accumulated depreciation			
Buildings, improvements and equipment	(948,142)	(122,775)	(117,906)
Plants, lines and rights	-	-	(3,324,975)
Net capital assets	2,832,869	429,343	4,430,945
Total noncurrent assets	2,834,829	446,291	4,714,942
<b>Total assets</b>	<b>\$ 3,488,675</b>	<b>\$ 860,781</b>	<b>\$ 5,330,543</b>

(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>	
\$ -	\$ 262,855	\$ 46,137
76	919,060	-
-	100,904	1
-	12,902	-
-	97	-
-	1,651	-
-	314,115	-
5,941	16,909	2
-	17,342	-
-	10,045	-
-	1,839	-
7,328	39,563	-
<u>13,345</u>	<u>1,697,282</u>	<u>46,140</u>
1,625	54,203	-
-	225,450	-
-	12,266	-
-	12,611	-
-	<u>250,327</u>	-
-	393,818	-
-	3,807,175	-
-	6,910,094	-
156,952	1,252,820	-
-	(1,188,823)	-
-	<u>(3,324,975)</u>	-
<u>156,952</u>	<u>7,850,109</u>	-
158,577	8,154,639	-
\$ 171,922	\$ 9,851,921	\$ 46,140

(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, 2005**  
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>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 8,086	\$ 2,921	\$ 10,933
Accrued payroll liabilities	765	81	1,715
Accrued interest payable	49,667	6,313	24,267
Contracts and retainages payable	43,860	3,211	66,629
Due to other funds	2,863	37	6,680
Due to component units	-	23,518	-
Due to other governments	-	4	766
Advances and deposits	2,960	467	26,131
Inferior lien contracts	3,255	-	-
Claims and judgments	1,043	58	2,627
Compensated absences	2,893	335	4,877
Revenue bonds payable	27,665	13,680	20,356
Unearned revenue	-	396	1,287
<b>Total Current Liabilities</b>	<b>143,057</b>	<b>51,021</b>	<b>166,268</b>
<b>Noncurrent liabilities</b>			
Revenue bonds payable	2,106,407	631,425	4,066,745
Claims and judgments	1,625	54	2,470
Compensated absences	3,807	308	11,539
Contracts payable	-	-	248,294
Inferior lien contracts	56,810	-	-
Commercial paper	48,500	22,500	180,000
Arbitrage rebate	160	888	-
Pension note payable	34,800	3,300	51,600
Municipal pension trust liability	22,584	2,412	39,067
Unearned revenue	-	11,771	111,618
Pension obligation bonds payable	2,006	189	3,382
<b>Total noncurrent liabilities</b>	<b>2,276,699</b>	<b>672,847</b>	<b>4,714,715</b>
<b>Total liabilities</b>	<b>2,419,756</b>	<b>723,868</b>	<b>4,880,983</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	695,039	87,801	322,683
Restricted net assets			
Restricted for debt service	32,267	15,461	-
Restricted for renewal and replacement	12,852	-	-
Restricted for maintenance and operations	34,160	14,407	58,702
Restricted for capital improvements	292,416	-	-
Other restricted	2,185	-	-
Unrestricted (deficit)	-	19,244	68,175
<b>Total net assets</b>	<b>\$ 1,068,919</b>	<b>\$ 136,913</b>	<b>\$ 449,560</b>

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 \*

<b>Business-type Activities-Enterprise Funds</b>		<b>Governmental Activities Internal Service Funds</b>
<b>Nonmajor</b>	<b>Total</b>	
\$ 4,573	\$ 26,513	\$ 34,582
-	2,561	25
2,236	82,483	-
2,965	116,665	-
-	9,580	2
-	23,518	-
-	770	-
-	29,558	2,140
-	3,255	-
-	3,728	7,566
-	8,105	98
2,365	64,066	-
-	1,683	406
<u>12,139</u>	<u>372,485</u>	<u>44,819</u>
127,077	6,931,654	-
-	4,149	-
-	15,654	27
-	248,294	-
-	56,810	-
-	251,000	-
-	1,048	-
-	89,700	-
-	64,063	-
-	123,389	-
-	5,577	-
<u>127,077</u>	<u>7,791,338</u>	<u>27</u>
<u>139,216</u>	<u>8,163,823</u>	<u>44,846</u>
32,631	1,138,154	-
-	47,728	-
-	12,852	-
-	107,269	-
-	292,416	-
-	2,185	-
75	87,494	1,294
<u>\$ 32,706</u>		<u>\$ 1,294</u>
	(712)	
	<u>\$ 1,687,386</u>	

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

**CITY OF HOUSTON, TEXAS**  
**PROPRIETARY FUNDS**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2005**  
**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	\$ 102,072	\$ -	\$ -
Terminal space rentals	151,417	-	-
Other building and grounds area	-	-	-
Parking	55,444	8,882	-
Concession	41,842	3,373	-
Other	2,866	-	-
Rental	-	6,920	-
Water/Sewer Billing	-	-	598,874
Health benefit premiums	-	-	-
Total operating revenue	<u>353,641</u>	<u>19,175</u>	<u>598,874</u>
<b>Operating Expenses</b>			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	223,972	32,797	332,800
Depreciation and amortization	105,891	10,372	224,074
Bad debt expense	-	-	-
Total operating expenses	<u>329,863</u>	<u>43,169</u>	<u>556,874</u>
Operating income (loss)	<u>23,778</u>	<u>(23,994)</u>	<u>42,000</u>
<b>Nonoperating revenue (expenses)</b>			
Investment income	14,968	15,926	12,972
Hotel occupancy tax	-	42,266	-
Other revenue	4,295	-	24,707
Loss on disposal of assets	(549)	-	(4,193)
Other expenses	-	(19,614)	-
Interest on long-term debt	(76,496)	(29,468)	(201,142)
Arbitrage expense recovery	1,137	-	-
Contributions in	-	4,106	-
Contributions out	-	(41,371)	-
Total nonoperating revenues (expenses)	<u>(56,645)</u>	<u>(28,155)</u>	<u>(167,656)</u>
Income (loss) before contributions and transfers	<u>(32,867)</u>	<u>(52,149)</u>	<u>(125,656)</u>
Capital contributions	<u>63,989</u>	<u>231</u>	<u>42,495</u>
Transfers in	-	2,942	-
Transfers out	-	(709)	(87,414)
Total transfers	<u>-</u>	<u>2,233</u>	<u>(87,414)</u>
Change in net assets	31,122	(49,685)	(170,575)
Liability resulting from internal service fund's undercharging proprietary funds			
Net change			
Total net assets (deficit), July 1	<u>1,037,797</u>	<u>186,598</u>	<u>620,135</u>
<b>Total net assets, June 30</b>	<u>\$ 1,068,919</u>	<u>\$ 136,913</u>	<u>\$ 449,560</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>	
\$ -	\$ 102,072	\$ -
-	151,417	-
-	-	-
-	64,326	-
-	45,215	-
-	2,866	-
-	6,920	-
-	598,874	-
-	-	215,374
-	971,690	215,374
77	77	4,044
-	-	211,338
-	589,569	-
-	340,337	-
-	-	-
77	929,983	215,382
(77)	41,707	(8)
-	43,866	602
-	42,266	-
-	29,002	2
-	(4,742)	-
-	(19,614)	-
(92)	(307,198)	-
-	1,137	-
191	4,297	-
-	(41,371)	-
99	(252,357)	604
22	(210,650)	596
-	106,715	-
26,567	29,509	-
-	(88,123)	-
26,567	(58,614)	-
26,589	(162,549)	596
	(1)	
	(162,550)	
6,117	1,850,647	698
\$ 32,706	1,688,097	\$ 1,294
	(711)	
	\$ 1,687,386	

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

**CITY OF HOUSTON, TEXAS  
PROPRIETARY FUNDS  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005  
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	\$ 337,583	\$ 20,054
Payments to employees	(72,384)	(6,657)
Payments to suppliers	(69,114)	(23,499)
Internal activity-payments to other funds	(39,629)	(1,483)
Claims paid	(5,447)	(51)
Due from other governments	-	1
Other revenues	4,295	-
Other expenses	-	(4,085)
Net cash provided by (used in) operating activities	155,304	(15,720)
<b>Cash flows from investing activities</b>		
Interest income on investments	14,531	15,940
Purchase of investments	(389,187)	(55,074)
Proceeds from sale of investments	559,931	66,951
Net cash provided by (used in) investing activities	185,275	27,817
<b>Cash flows from capital and related financing activities</b>		
Retirement of revenue bonds	(19,740)	(6,590)
Proceeds from inferior lien contract	6,681	-
Proceeds from issuance of revenue bonds	702	-
Proceeds from issuance of commercial paper	28,500	-
Interest expense on debt	(106,636)	(22,715)
Advances and deposits on construction	7	-
Contributed capital	54,242	-
Acquisition of property, plant and equipment, net	(279,548)	(6,141)
Net cash provided by (used in) capital and related financing activities	(315,792)	(35,446)

(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>Combined Utility</b>	<b>Nonmajor</b>	<b>Total</b>	
\$ 601,984	\$ -	\$ 959,621	\$ 215,374
(115,020)	-	(194,061)	(1,956)
(148,849)	-	(241,462)	36,165
(8,010)	-	(49,122)	(34)
(2,787)	-	(8,285)	(213,097)
-	-	1	-
25,742	-	30,037	-
-	(81)	(4,166)	-
<u>353,060</u>	<u>(81)</u>	<u>492,563</u>	<u>36,452</u>
13,504	241	44,216	602
(380,478)	-	(824,739)	-
<u>281,534</u>	<u>6,122</u>	<u>914,538</u>	<u>-</u>
<u>(85,440)</u>	<u>6,363</u>	<u>134,015</u>	<u>602</u>
(71,947)	-	(98,277)	-
-	-	6,681	-
208,722	-	209,424	-
180,000	-	208,500	-
(189,042)	(5,033)	(323,426)	-
-	19,139	19,146	-
14,854	-	69,096	-
<u>(267,634)</u>	<u>(20,388)</u>	<u>(573,711)</u>	<u>-</u>
<u>(125,047)</u>	<u>(6,282)</u>	<u>(482,567)</u>	<u>-</u>

(Continued)

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

**CITY OF HOUSTON, TEXAS  
PROPRIETARY FUNDS  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005  
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	-	(18,064)
Proceeds from pension bonds	1,962	189
Transfers	-	2,233
Other revenues	-	-
Payments to Hotel Corporation	-	(5,598)
Hotel occupancy tax revenue	-	42,985
Transfers to debt service fund	-	-
Transfers to other funds	-	-
Net cash provided by (used in) noncapital financing activities	<u>1,962</u>	<u>21,745</u>
Net increase (decrease) in cash and cash equivalents	26,749	(1,604)
Cash and cash equivalents, July 1	<u>20,004</u>	<u>29,613</u>
<b>Cash and cash equivalents, June 30</b>	<u>\$ 46,753</u>	<u>\$ 28,009</u>
<b>Non cash transactions</b>		
Amortization expense	-	-
Pension note	34,800	3,300
Unrealized gain (loss) on investments	437	15
Inferior lien contract	51,756	-
Contributions of capital assets	-	37,262
Capitalized interest expense	32,634	1,068
Gain (loss) on disposal of assets	549	-
Total non cash transactions	<u>\$ 120,176</u>	<u>\$ 41,645</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ 23,778	\$ (23,994)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	105,891	10,372
Other revenues	4,295	-
Due to other fund non-cash transfer	-	(4,085)
Changes in assets and liabilities		
Accounts receivable and prepaids	(15,007)	(22)
Due from other funds	(3,208)	(257)
Due from other governments	-	-
Inventory and prepaid insurance	(123)	61
Accounts payable	2,709	(2,271)
Accrued payroll liabilities	(1,891)	(185)
Due to other funds	1,958	(571)
Due to other governments	-	1
Advances and deposits	(1,065)	(18)
Claims and judgments-workers' compensation	(4,404)	97
Compensated absences	235	29
Pension note	34,800	3,300
Pension Obligation payable	7,336	-
Deferred revenue	-	919
Other long-term liabilities	-	904
Net cash provided by (used in) operating activities	<u>\$ 155,304</u>	<u>\$ (15,720)</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>
-	-	(18,064)	-
3,382	-	5,533	-
-	-	2,233	-
-	-	-	2
-	-	(5,598)	-
-	-	42,985	-
(27,822)	-	(27,822)	-
(56,567)	-	(56,567)	-
<u>(81,007)</u>	<u>-</u>	<u>(57,300)</u>	<u>2</u>
61,566	-	86,711	37,056
<u>126,527</u>	<u>-</u>	<u>176,144</u>	<u>9,081</u>
<u>\$ 188,093</u>	<u>\$ -</u>	<u>\$ 262,855</u>	<u>\$ 46,137</u>
-	92	92	-
51,600	-	89,700	-
533	-	985	-
-	-	51,756	-
6,660	-	43,922	-
25,048	6,469	65,219	-
4,193	-	4,742	-
<u>\$ 88,034</u>	<u>\$ 6,561</u>	<u>\$ 256,416</u>	<u>\$ -</u>
\$ 42,000	\$ (77)	\$ 41,707	\$ (8)
224,072	-	340,335	-
25,741	-	30,036	-
-	-	(4,085)	-
(10,451)	-	(25,480)	-
(5,446)	-	(8,911)	223
(254)	-	(254)	-
(910)	-	(972)	-
1,526	(4)	1,960	36,641
(3,162)	-	(5,238)	(68)
4,240	-	5,627	(13)
-	-	1	-
3,652	-	2,569	-
306	-	(4,001)	(370)
(665)	-	(401)	(3)
51,600	-	89,700	-
10,901	-	18,237	-
9,910	-	10,829	50
-	-	904	-
<u>\$ 353,060</u>	<u>\$ (81)</u>	<u>\$ 492,563</u>	<u>\$ 36,452</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, 2005**  
*amounts expressed in thousands*

	<u>Pension Trust</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash	\$ 4,061	\$ -
Equity in pooled cash and investments	-	45,149
Investments		
U.S. government and agency securities	62,840	-
Corporate bonds	73,687	-
Other fixed income securities	1,161,249	-
Commingled equity funds	420,920	-
Common and preferred stock	2,968,819	-
Real estate and partnerships	793,993	-
Short-term investment funds	656,369	-
Invested securities lending collateral	1,174,652	-
Receivables, net of allowances		
Accounts receivable	30,275	120
Contributions	3,809	-
Accrued interest and other	417,565	-
Other Assets	56,350	-
Land	541	-
Building	7,784	-
Total assets	<u>7,832,914</u>	<u>45,269</u>
<b>Liabilities</b>		
Accounts payable	66,982	45,139
Advances and deposits	-	130
Security lending collateral	925,986	-
Foreign funds contracts payable	73,824	-
Other liabilities	4,058	-
Total liabilities	<u>1,070,850</u>	<u>\$ 45,269</u>
<b>Net assets</b>		
Held in trust for pension benefits and other purposes	<u>\$ 6,762,064</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**  
**PENSION TRUST FUNDS**  
**For the Years Ended June 30, 2005**  
*amounts expressed in thousands*

	<b>2005</b>
<b>Additions</b>	
Contributions:	
City of Houston	\$ 433,061
Plan members	68,253
Total Contributions	501,314
Investment earnings	
Interest and dividends	241,762
Net increase in the fair value of investments	678,942
Total investment earnings	920,704
Less investment expense	(48,686)
Net investment earnings	872,018
Total additions	1,373,332
 <b>Deductions</b>	
Benefits	415,198
Refund of contributions	2,264
Administrative expense	16,202
Total deductions	433,664
Change in net assets	939,668
Total net assets, July 1	5,822,396
Total net assets, June 30	\$ 6,762,064

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

CITY OF HOUSTON, TEXAS

