



Independent Auditors' Report

To the Mayor, City Council, City Controller, and Citizens:

We have audited the accompanying general purpose financial statements of the City of Houston, Texas (the City) as of and for the year ended June 30, 1999, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Firemen's Relief and Retirement Fund, the Municipal Employees' Pension System and the Police Officers' Pension System, blended component units of the City, which, in aggregate, reflect 99.8% of total assets of the Fiduciary Fund Type and 100% of the total additions of the Pension Trust Funds. In addition, we did not audit the financial statements of the Cultural Arts Council of Houston and the Houston Parks Board, discretely presented component units of the City, which in aggregate reflect 22.4% of total assets and 57.2% of total revenues and other financing sources of discretely presented component units. 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 the blended component units and the discrete component units listed above is based solely on the reports of the other auditors.

We conducted our audit in accordance with 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Houston, Texas, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued a report November 30, 1999, on our consideration of the City of Houston, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The schedules of funding progress and employer contributions and the year 2000 information on pages 52 and 55, respectively, are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. We were unable to apply certain of these limited procedures to the year 2000 information because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the City is or will become year 2000 compliant, that the City's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City does business are or will become year 2000 compliant.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Houston, Texas. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In addition, the information in the introductory and statistical sections, as listed in the accompanying table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

KPMG LLP

November 30, 1999