



# *City of Houston, Texas*

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Ronald C. Green, City Controller



**CITY OF HOUSTON, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Year Ended June 30, 2010**

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CITY OF HOUSTON, TEXAS





## 2010 CITY OF HOUSTON Comprehensive Annual Financial Report

### Office of the City Controller

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Houston City Controller Ronald C. Green is the second highest elected official in Houston City Government (the "City") and its Chief Financial Officer. The Office of the Houston City Controller superintends the fiscal affairs of the City. This includes conducting audits, managing investments and debt, preparing financial statements and providing leadership on policy issues pertaining to the City's financial health. He thus serves as an independently elected "financial watchdog" over City government's fiscal affairs.

The Treasury Division is responsible for managing the City's \$2.4 billion investment portfolio in accordance with state law and the City's investment policy. Standard and Poor's has awarded its highest AAA rating to the general portfolio. The Treasury Division is also responsible for overseeing a debt program of approximately \$13 billion. The City has twelve commercial paper programs totaling \$1.7 billion, seven auction-rate security issues, nine series of variable rate demand obligation bonds, SIFMA indexed notes, and two interest rate swaps with a total notional amount of \$902 million and credit agreements totaling \$ 2.6 billion.

Moody's Investors Service and Fitch Ratings recently recalibrated ratings on US municipal bond issues to their respective global ratings scales. As a result of the recalibrations, the City's general obligation credit ratings were upwardly adjusted by Moody's from Aa3 to Aa2 and by Fitch from AA- to AA. In its most recent general obligation surveillance report, Moody's cited the City's large tax base and operating reserves as strengths. Standard and Poor's affirmed the City's AA rating on its general obligation debt based on the City's "sizable and diverse economic base, which has shown resiliency over the past year and positive financial operations with a strong general fund reserve balance, although the balance is anticipated to decline."

The Audit Division performed 22 audit projects during Fiscal Year 2010, which included an Enterprise Risk Assessment. The structure has been reorganized to create an information technology auditing function that focuses on continuous auditing through the City's financial system. Additionally, a peer review was being performed at the close of the fiscal year to assess the Audit Division's conformance and adherence to recognized professional auditing standards (Government Auditing Standards and Professional Standards as issued by the Institute of Internal Auditors). The Audit Division has also assumed a significant portion of the detail testing required by the OMB Circular A-133 for Federal and State grants in assisting the Single Audit and thus provided savings to the City by reducing billable hours to the external auditors.

The Operations and Technical Services Division performs certification of funds for contracts, accounts payables, bank reconciliation, payroll payments, and record retention for all City-wide departments. Additionally, the division disburses checks for all City and private vendors and fulfills the Vendor Liaison function. Furthermore, IT needs for the Controller's Office are handled by the Technical Services section. In the coming year, the division's goal is to coordinate the City's move to a paperless approval system for invoices and encouraging direct deposit payment by City vendors.

The Executive Division recently launched a fall promotional and public education campaign for Bank on Houston, a City-sponsored program to connect unbanked residents with the financial mainstream. Over 20 banks and a dozen non-profit agencies have partnered with the City with the missions of offering basic banking services and financial education. The Federal Reserve Bank, Houston Branch; the Federal Deposit Insurance Corporation; the National League of Cities, and the City were the original partners when Bank on Houston began in 2008.

The Financial Reporting Division is ultimately responsible for the preparation of both the Monthly Financial and Operations Report (MFOR) and the Comprehensive Annual Financial Report (CAFR), although every division of the City Controller's Office contributes to the CAFR effort. The CAFR is available on the City Controller's website: [www.houstoncontroller.org](http://www.houstoncontroller.org) and on a CD disc upon request.

# Ronald C. Green

## Houston City Controller

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Ronald C. Green was elected Houston's City Controller on December 12, 2009, after serving three terms on Houston City Council, At-Large, Position Four. He chaired the Budget and Fiscal Affairs Committee, overseeing the City's annual budget of nearly \$4 billion.

While he served on City Council, his work entailed regular financial and operations reports, strategic purchasing, and municipal court reform. He also served as a member of the Transportation, Infrastructure and Aviation Committee and the Ad-Hoc Committee on Legislative Affairs. His work has helped improve City programs, from competitive bidding and capital projects to pension protection and customer service. He championed effective financial management of the City's enterprise funds, equipment acquisition, and fair housing initiatives.

As Controller, Mr. Green is the financial watchdog for Houston's taxpayers, concentrating on controlling spending and acting as a check-and-balance on the competing interests before the executive and legislative branches of City government. He has the independent authority to conduct performance reviews of the City bureaucracy to make sure Houston has a modern, efficient city government. In addition, he has put emphasis upon:

- Accurately and timely reporting on the City's financial condition;
- Assessing the City's future financial condition with accurate forecasts of projected revenues and expenses;
- Certifying to City Council that funds are available for all appropriations and commitments of funds and keeping accurate books of account to reflect these commitments;
- Certifying that vendors with City contracts are not delinquent on City taxes;
- Auditing the financial activities of City departments;
- Ensuring that every City dollar is fully and wisely invested at all times; and
- Serving as the financial voice for City government and informing the citizens.

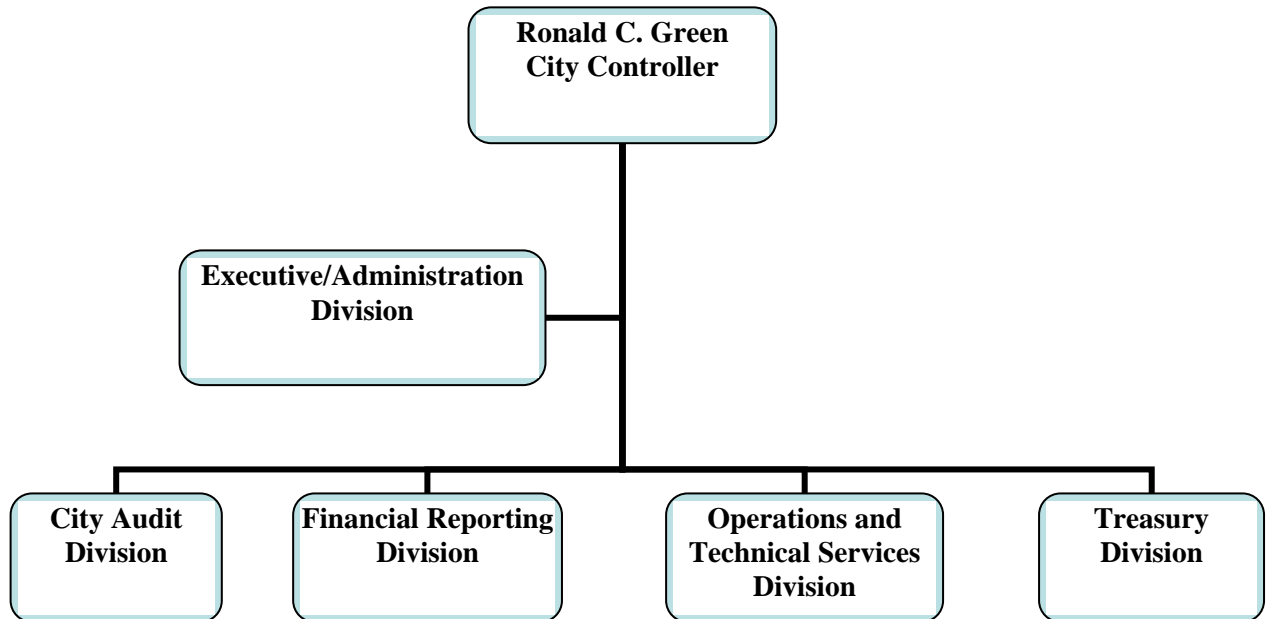
Mr. Green is a native Houstonian and a 1988 graduate of the Houston Independent School District's Michael E. DeBakey High School for Health Professions. He earned both a Bachelor of Science and a Master of Business Administration from the University of Houston, as well as a law degree from Texas Southern University's Thurgood Marshall School of Law. He is licensed to practice law in the State of Texas, the District of Columbia, the 5th Circuit Court of Appeals and the United States Supreme Court. He is also a licensed real estate broker.

Mr. Green is a founding partner of his own law firm and a member of Alpha Phi Alpha Fraternity, Inc., 100 Black Men of America, Inc., UH Alumni Organization, UH Black Alumni Association, Thurgood Marshall School of Law Alumni Association, Government Finance Officers Association, National Association of Bond Lawyers, Houston Lawyers Association, and Leadership Houston Class XXIII. He is married to Judge Hilary Harmon Green, Justice of the Peace, Harris County Precinct Seven, Place 1. They have a son and are active in their community and Windsor Village United Methodist Church.



# City of Houston

## The Office of the City Controller







## 2010 CITY OF HOUSTON Comprehensive Annual Financial Report

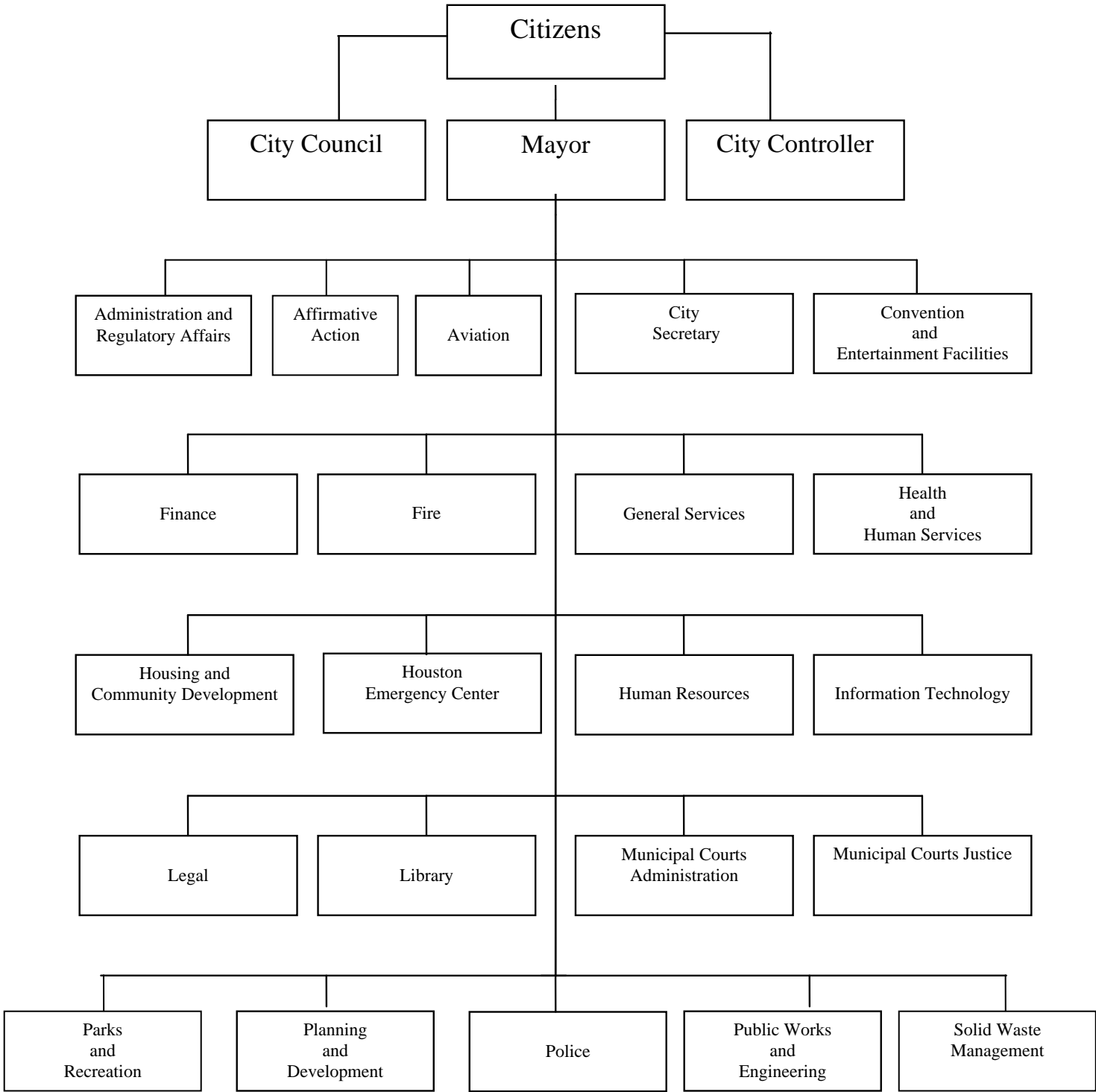
### Elected Officials City of Houston, Texas



**2010 Houston City Council: (L-R) District H Councilman Edward Gonzalez (Vice Mayor Pro-Tem); At Large Position 2 Councilwoman Sue Lovell; At Large Position 1 Councilman Stephen C. Costello, District I Councilman James G. Rodriguez; District B Councilman Jarvis Johnson; District F Councilman Al Hoang; At Large Position 5 Councilwoman Jolanda “Jo” Jones; At Large Position 4 Councilman C. O. “Brad” Bradford; Houston Mayor Annise D. Parker; District D Councilwoman Wanda Adams; City Controller Ronald C. Green; District E Councilman Mike Sullivan; At Large Position 3 Councilwoman Melissa Noriega; District A Councilwoman Brenda Stardig; District C Councilwoman Anne Clutterbuck (Mayor Pro-Tem); and District G Councilman Oliver Pennington.**



# Organization Chart City Government



CITY OF HOUSTON, TEXAS





Office of the City Controller  
City of Houston, Texas

Ronald C. Green

November 30, 2010

Citizens of Houston, Honorable Mayor and City Council Members:

I am pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Houston (Texas) (the “City”) for the year ended June 30, 2010, including the independent auditor’s report prepared by Deloitte & Touche LLP. The CAFR was prepared by the City Controller’s Office and satisfies my responsibilities under the City Charter and State law. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects and is organized in a manner which fairly sets forth the financial position and results of operations of the City as measured by the financial activity of its various funds.

The City’s management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable, but not absolute, assurance that the assets of the City are protected from loss, theft or misuse, and for the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

The CAFR is presented in three sections. The Introductory Section includes this transmittal letter, a list of elected City officials, and organizational charts for the Office of City Controller and for City government. The Financial Section includes Management’s Discussion and Analysis (MD&A), basic financial statements, combining and individual fund statements and schedules, as well as the independent auditor’s report on the basic financial statements. The Statistical Section includes selected financial and demographic information generally presented in a multi-year basis.

The Basic Financial Statements of the City include all government activities, organizations and functions, including those legally separate organizations for which the City is financially accountable as defined by the Governmental Accounting Standards Board (GASB).

These financial statements have been prepared in accordance with generally accepted accounting principles for local governments as prescribed by the GASB.

**The Reporting Entity and Its Services**

The Mayor serves as the Chief Executive Officer of the City. The City Controller is the second-highest elected official within City Government and serves as the City’s Chief Financial Officer. The legislative body of the City is the City Council, which consists of the mayor, nine district members and five at-large members. The Mayor, City Controller and Council Members are limited to three two-year elected terms.

The City provides a full range of municipal government services including police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection, sanitary code enforcement, wastewater treatment, health and human services, building and maintenance, parks and recreation, library, convention and cultural activities, and operation of three municipal airports, George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport.

The City does not operate hospitals, schools, transportation systems or higher education systems. Special districts and governmental entities with independent taxing authority are responsible for administering these services.

## **History and Population**

Houston was founded on August 30, 1836, by New York real estate brokers John Kirby Allen and Augustus Chapman Allen. The Allen brothers paid \$9,428 for 6,642 acres of land at the headwaters of Buffalo Bayou. About a year later, General Sam Houston, the first president of the Republic of Texas, authorized Houston to incorporate. For the next four years Houston was the capital of the Republic. In the early years, cotton and the railroad were the key drivers of Houston's economy. That changed in 1901 with the discovery of oil at Spindletop in Beaumont, Texas. Energy is still king but the area's economy is now also supported by other major drivers, including the Port of Houston, the Texas Medical Center and NASA's Johnson Space Center.

At the time of the first census in Texas in 1850, Houston had a population of 2,397 and Galveston, a bustling port 45 miles south of Houston, was the state's largest city. Today, Houston is the largest city in Texas and the fourth largest city in the U.S. In this first decade of the new century, a quarter million people from other U.S. cities and towns have relocated to Houston. Houston, with more than 2.2 million people, is a melting pot of ethnicities where no single group comprises a majority. The City is the seat of a burgeoning metropolitan area encompassing six counties with a total population approaching 6 million.

## **Budgetary Information**

In accordance with State law and the City Charter, Houston City Council shall, in collaboration with the mayor and City departments, adopt balanced budgets each year for the General Fund, Debt Service Fund, Special Revenue Funds, Internal Service Funds and Proprietary Funds. Exceptions are the Grant Revenue, Disaster Recovery, Health Special and Housing Special Revenue Funds, for which City Council adopts separate operating or program budgets throughout the year. The City also does not budget capital projects and other capital expenditures related to the General Fund. Instead, City Council authorizes these expenditures through individual appropriation ordinances.

Proprietary Fund budgets, also called Enterprise Funds, exclude depreciation and amortization expenses. These Proprietary Fund budgets include debt service and capital equipment costs, but exclude buildings and improvements, with the exception of Aviation, which budgets its current year expenses for these projects. As with the General Fund capital projects, approval of each Proprietary Fund capital project is accomplished through individual appropriation ordinances. No City expenditures may be made without an appropriation. City Council can legally appropriate only those amounts of money that the City Controller has previously certified are, or will be, in the City treasury.

Although the legal level of budgetary control is at the departmental level within a fund, the City maintains internal budgetary control at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay). Budget control is primarily managed using an automated encumbrance and accounts payable system.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, the U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments and Non-profit Organizations," and the State of Texas Uniform Grant Management Standards. These audits are conducted simultaneously with the City's annual financial statement audit. Information related to these Single Audits, including the schedules of federal and state financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations is included in separate Single Audit reports.

## **The Local Economy**

The roots of Houston's economic slowdown began toward the end of 2008. Oil prices had peaked in July 2008 at close to \$150 a barrel but then went into a dramatic decline and bottomed out at \$36 a barrel in February 2009. Concurrently, gas prices began falling in late 2008, despite a colder than usual winter. By August 2009, the impact on sales tax was clearly evident, although retail sales tax did not plummet; it was the business-to-business transactions that were grim. By spring 2009, Houston's unemployment had surged, the worst since the 1980 recession.

The accepted wisdom was that Houston would feel the effects of the world-wide economic slowdown late, probably the last of the big cities to experience a new recession. And the thought also was that Houston would be among the last of cities to emerge from the recession—which has proved to be a false assumption.

By November 2009 oil prices began a surprising comeback, rising to \$74 a barrel. The accepted wisdom now is that Houston "bottomed out" in August 2009 and then began a slow recovery—six months ahead of most of the rest of the country. Another favorable aspect in Houston's slowdown was the stability of the housing market—today Houston home prices are no lower than the highs of 2007, while cities like Las Vegas, Phoenix, Los Angeles and San Francisco are down as much as 35 percent. Americans lost about \$14 trillion in personal wealth through stock market losses and declining home prices.

Finally, manufacturing remained strong in Houston. While natural gas prices have not rebounded as nicely as oil, the bulk of exploration in the past three years has been related to natural gas. Now that oil has rebounded, we are seeing a shift to oil exploration which will account for as much as 40 percent of total exploration. The long term effects of the BP disaster are unknown; certainly there will be increased regulation, and this will probably have a positive effect on Houston's employment and overall energy sector economy.

In the end, Houston's economy—like the country's--will recover as consumers begin spending and businesses begin investing and hiring.

Houston's economy began diversification earnestly in the 1970s. These additional economic sectors greatly strengthened Houston's resiliency during both the 1980s recession and the current slowdown.

International trade is hugely important for Houston and has made the Port of Houston the country's largest foreign borne cargo port. In addition to the port itself, more than 150 private companies are located along the ship channel. Studies indicated the port and port-related businesses support nearly 800,000 jobs with a statewide impact of \$120 billion.

The Houston Airport System (HAS) is comprised of three airports, Bush Intercontinental Airport, Hobby Airport and Ellington Field. HAS is an enterprise department of the City supported by its fees and leases and uses no local tax dollars. Bush Intercontinental is a gateway airport to Central and South America. Non-stop flights to worldwide locations –including Hong Kong and Dubai—originate at Intercontinental. Approximately 50 million passengers—including 8 million international travelers—utilize the airport annually.

The Texas Medical Center is comprised of 47 member institutions, including 13 hospitals, two medical schools and four schools of nursing. Many of the TMC institutions are world-renowned for medical research and patient care. The Texas Medical Center employs 93,000 people, has over six million patient visits annually and records nearly 20,000 births annually.

Houston is a renowned academic center. The positive effect of our colleges on the area's economy is immense. Baylor College of Medicine is the only private medical school in the Southwest and is consistently named as among the very best academic health centers in the U.S. The University of Texas Health Science Center includes the Dental Branch, Medical School, School of Public Health, School of Nursing, Psychiatric Center and School of Biomedical Sciences. Houston Baptist University is a small Christian-based liberal arts university offering courses in the arts, music, education, nursing, business and the sciences. Houston Community College is one of the nation's largest junior colleges; the system has six commuter campuses and offers academic courses, certificates in more than 70 fields and continuing education and corporate training. Rice University is a private research university in Houston's museum district; it is consistently ranked as one of the best universities in the U.S.—and probably the best value. South Texas College of Law was founded in 1923, and is accredited by the American Bar Association. Texas Southern University is one of the nation's largest Historically Black Universities and offers a large array of undergraduate and graduate courses; TSU has a school of pharmacy and the Thurgood Marshall School of Law. The University of Houston was founded in 1927 and is today the flagship institution of a system with three other universities and three multi-institution teaching centers. The University of St. Thomas offers a Catholic liberal arts education and has been rated among the top tier schools in this region by U.S. News and World Reports.

Houston continues to be a destination. During the past decade, nearly one-quarter of a million people moved to the greater Houston area from other U.S. cities and towns. The City continues to rank at the top of lists such as Forbes, Business Week, Bloomberg Business Week, Manufacturers' News, Southern Business Development and others in regards to career choice, income, recreation opportunities, housing and business start-up:

Top Cities for Recent College Grads  
*Bloomberg Business Week – July 2010*

Most Business Friendly  
*FDI Magazine - April 2009*

Top Local Government Green Power Purchaser  
*Environmental Protection Agency - July 2010*

Nation's Healthiest Housing Market  
*Builder and Hanley Wood Market Intelligence - 2009*

Best Cities for Young Professionals  
*Forbes.com – June 2010*

Best U.S. City to Earn a Living  
*Forbes.com - August 2008*

Top U.S. Manufacturing Cities  
*Manufacturers' News – May 2010*

Top Destination City  
*U-Haul International – April 2010*

Best City for Your Job  
*Business Week - June 2008*

Mega Market of the Year  
*Southern Business Development - August 2009*

Best City for Recent College Grads  
*Forbes.com - June 2008*

Best City to Get Ahead  
*Forbes.com - June 2009*

Largest IT Service Economy  
*Onforce, Inc. – December 2008*

Nonetheless, the recovery has been slow. Job loss through FY 2010 was essentially flat, after a fairly disastrous 2009. All the data indicates that as of August 2010 private sector employment is beginning to recover. While the area's construction industry saw a loss of 11,000 jobs in 2009, the first half of 2010 saw 700 construction jobs added.

The Houston real estate market continues to experience slower sales coupled with strong pricing, and that combination still puts us in an enviable position compared to many other markets around the country. An anticipated property sales slowdown set into the Houston real estate market in July following the expiration of the federal homebuyer tax credit. The credit had propelled local home sales for four straight months beginning in March; however home sales suffered a double-digit decline in July. Despite the drop, the average price of a single-family home still managed to climb to a two-year high. Sales of all property types in Houston for September 2010 totaled 4,648, down 18.0 percent compared to September 2009. Total dollar volume for properties sold during the month was \$958 million versus \$1.1 billion one year earlier, representing a 12.9 percent drop, an improvement from the July-to-July comparison of 25 percent.

### **Financial Policies and Planning**

The City has had formal financial and budgetary procedures in place since 1987. They require, among other things, a balanced budget, annual review of all fees and charges, funding of employee pensions and other benefits in a manner that systematically funds liabilities and maintenance of an Undesignated Fund Balance in its General Fund of a minimum of 5 percent of total expenses less debt service. Any funds in excess of 7.5 percent of total expenses less debt service are available for non-recurring expenses.

A 1983 resolution adopted by City Council requires the Mayor to develop and submit annually to the City Council for approval a continuous five-year Capital Improvement Plan (CIP). Each year, the Mayor must review the CIP, revise it as necessary, and obtain approval and adoption by City Council. The 2011-2015 CIP calls for the appropriation of \$4.0 billion over the five-year period for both enterprise and property tax supported projects. About \$2.5 billion of this total will be paid for with income generated by the self-supporting enterprise funds. The rest will be funded with tax-supported public improvement bonds approved by Houston voters.

The City's financial policies further require that capital projects or equipment purchases funded through the issuance of bonds or other obligations will be financed for a period not to exceed the expected life of the project or equipment. Annual contributions for debt service from the General Fund are limited to 20 percent of total General Fund revenues, excluding state and federal grants. In addition, Texas law mandates that the City's total tax supported indebtedness shall not exceed 10 percent of the total assessed valuation of property in the City. As of September 20, 2010, the City's outstanding debt payable from taxes and other revenue sources totaled \$13 billion. This is in compliance with all applicable financial policies and considered manageable.

The City has investments totaling approximately \$2.4 billion. We adhere to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investment. The success of this deliberate approach is evident in the 'AAAf' credit quality rating and "S1" volatility rating assigned to the City's General Investment Portfolio by Standard and Poor's Rating Services.



## **Long-term Financial Forecast and Major Initiatives**

The most recent five-year planning scenario available from the City's Finance Department indicates known cost increases continue to put stress on the City budget. The main factors driving increased expenditures are contractual employee pay hikes, increased costs for employee health insurance benefits, pension responsibilities and operating costs for new facilities. As noted previously in this letter, the recession has also caused increased stress in the form of declining sales tax and property tax revenues. Various strategies are being used to ensure balanced budgets including cost cutting and productivity improvements, a strong commitment to an affordable CIP and strict management of employee health care benefits.

## **Employee Pension Funds**

The City has three pension programs that cover all full time City employees: The Houston Municipal Employees Pension System (HMEPS) for municipal employees, the Houston Police Officers' Pension System (HPOPS) for classified police officers and the Houston Firefighters' Relief and Retirement Fund (HFRRF) for classified firefighters. The unfunded liability for these three pensions totals \$2.3 billion. Negotiated changes in pension benefits, increased employee contributions and the use of pension obligation bonds have helped to reduce this unfunded liability in recent years. The City expects additional improvement in the unfunded liabilities in future years as the full impact of the negotiated changes takes effect.

## **Retiree benefits**

The City also provides certain health care benefits for its retired employees, their spouses and survivors. Beginning with the Fiscal Year 2008 CAFR, the City is required by the Government Accounting Standards Board Statement No. 45 (GASB 45) to report an actuarially determined cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. The most recent actuarial report indicates \$3.0 billion accrued liability for retiree health benefits. It is the City's practice to fund the cost of OPEBs on an annual pay-as-you-go basis and account for OPEB costs as a current operating expense in the fiscal year in which the OPEB cost is paid.

## **Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Houston for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the 13th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

The preparation of this report on a timely basis could not have been accomplished without the dedicated services and hard work of a highly qualified staff. The City of Houston has such a staff in the City Controller's Office. Although much time and effort in preparation of this report lies in the Financial Reporting Division, there was support from the other divisions of the Office: Administration, Executive, Operations and Technical Services and Treasury. I would like to express my appreciation to the entire staff of the City Controller's Office, and to the staffs of the Finance and Administration, Aviation, Convention and Entertainment Facilities, and Public Works and Engineering departments who assisted and contributed to the preparation of this report.

The City Controller's Office also received invaluable assistance and support from many others outside its immediate organization. Within the City of Houston, the accounting staffs of the operating departments and the technical staff of the Information Services Division all played key roles in producing this report. Deloitte & Touche LLP was not only our independent auditor, but also served as an invaluable source of information and ideas for improving the way City finances are reported.

## **Request for Information**

This financial report is designed to provide a general overview of the City of Houston's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby Street, 8<sup>th</sup> Floor, Houston, Texas 77002. Copies of this CAFR are available in CD format.



Ronald C. Green  
City Controller

## **Sources:**

City of Houston FY 2010 Operating Budget  
City of Houston 2010-2015 Capital Improvement Plan  
City of Houston General Fund Five-Year Planning Scenario  
Greater Houston Partnership  
Houston Association of Realtors  
University of Houston Institute for Regional Planning  
University of Houston Hobby Center for Public Policy  
Rice University Institute for Urban Research

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



## 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, 2010, 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 opinions on these 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 Houston Area Water Corporation, a nonmajor business-type enterprise fund, which represents 0% 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 units (except for the Houston Area Library Automated Network and Lamar Terrace Public Improvement District), which represent .1% and 1%, respectively, of the assets and revenues of the governmental discretely presented component units and or any business-type (except Houston Zoo Inc.), which represent 20% and 29%, respectively, of the assets and revenues of the business-type 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 such business-type activities, pension trust funds and governmental and business – type discretely presented component units, is based 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"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City of Houston, Texas, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*", which requires the measurement, recognition and display of intangible assets for the year ended June 30, 2010. As discussed in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*", which requires the measurement, recognition, and display of derivative instruments for the year ended June 30, 2010. As discussed in Note 16 to the financial statements, the City restated beginning net assets related to a change in the composition of discretely presented governmental component units.

The Management's Discussion and Analysis (pages 3 through 13), Schedule of Budgeted and Actual Revenues and Expenditures of the General Operating Fund (pages 113-117), Pension System Supplementary Information (page 119) and Other Post Employment Benefits Supplementary Information (page 120) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the City of Houston, Texas' 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 reports 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 by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



November 30, 2010

**City of Houston, Texas**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

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, 2010. Please read this information in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2009. 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, 2010 include:

- The assets of the City of Houston exceeded its liabilities at the close of the most recent fiscal year by \$3.583 billion.
- The City's total net assets decreased during the year by \$371 million.
- Unrestricted assets are a deficit of \$2.030 billion.
- The City of Houston's total expenses were \$4.151 billion.
- Program revenues of \$1.902 billion reduced the net cost of the City's functions to be financed from the City's general revenues to \$2.249 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, combined utility system, convention & entertainment facilities, and parking facilities management.

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 displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures, and changes in fund balances and governmental activities is provided on a separate schedule.

The City of Houston maintains nine individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the capital projects fund and the grants fund, all of which are considered to be major funds. Data from the other funds is combined in the column labeled "Nonmajor Governmental Funds" on both of these statements (see 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: Enterprise funds (see separate tab of same name) and internal service funds (see 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 and the convention and entertainment facilities. The City also includes the Houston Area Water Corporation and the parking facilities management fund as nonmajor proprietary funds. 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; general budget policies; the City of Houston's progress in funding its obligation to provide pension benefits to its employees; and other post employment benefits.

### 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 \$3.583 billion at the close of the most recent fiscal year.

**Net Assets**  
**June 30, 2010**  
(With comparative totals for 2009)  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	1,017	\$ 1,033	2,443	\$ 2,081	\$ 3,460	\$ 3,114
Capital assets	6,494	6,282	9,306	8,839	15,800	15,121
Total assets	7,511	7,315	11,749	10,920	19,260	18,235
Long-term liabilities	4,772	4,392	9,633	8,959	14,405	13,351
Other liabilities	790	721	481	486	1,271	1,207
Total liabilities	5,562	5,113	10,115	9,445	15,675	14,558
Net assets						
Invested in capital assets, net of related debt	3,678	3,670	894	669	4,572	4,339
Restricted	199	161	842	824	1,041	985
Unrestricted (deficit)	(1,928)	(1,630)	(102)	(18)	(2,030)	(1,648)
Total net assets	\$ 1,949	\$ 2,201	\$ 1,634	\$ 1,475	\$ 3,583	\$ 3,676

By far the largest portion of the City of Houston's net assets (127.6%) 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 (29.1%) represents resources that are subject to external restrictions on how they may be used.

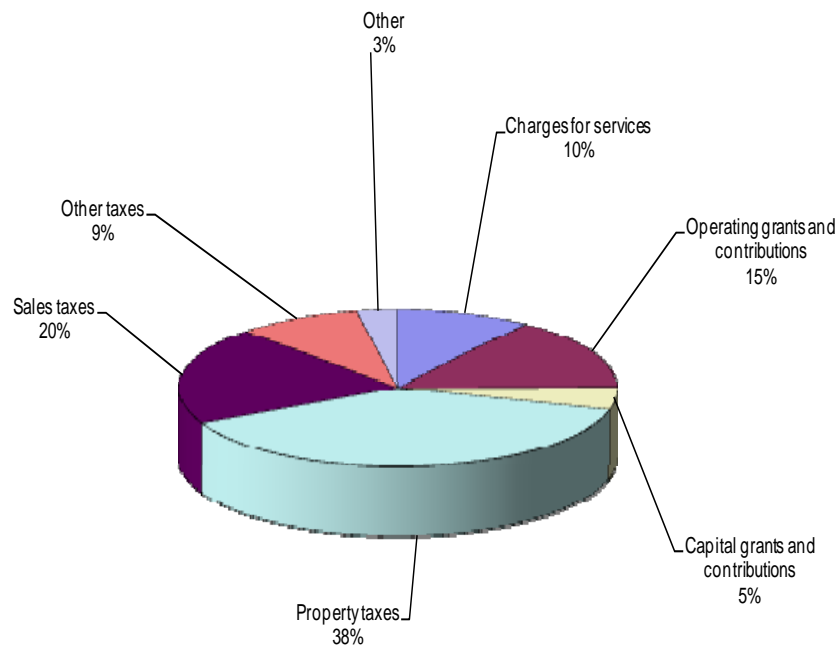
**Change in Net Assets**  
**For the Fiscal Year Ended June 30, 2010**  
With comparative totals for 2009  
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for services	\$ 233	\$ 231	\$ 1,143	\$ 1,108	\$ 1,376	\$ 1,339
Operating grants and contributions	347	393	11	5	358	398
Capital grants and contributions	109	45	59	193	168	238
General revenues:						
Property taxes	896	891	-	-	896	891
Sales taxes	469	507	-	-	469	507
Other taxes	217	221	55	62	272	283
Other	70	96	163	153	233	249
Total revenues	<u>2,341</u>	<u>2,384</u>	<u>1,431</u>	<u>1,521</u>	<u>3,772</u>	<u>3,905</u>
Expenses:						
General government	232	220	-	-	232	220
Public safety	1,486	1,461	-	-	1,486	1,461
Public works	306	418	-	-	306	418
Health	140	137	-	-	140	137
Housing and community development	96	63	-	-	96	63
Parks and recreation	93	97	-	-	93	97
Library	49	48	-	-	49	48
Interest on Long-term Debt	152	129	-	-	152	129
Depreciation and amortization	120	115	-	-	120	115
Airport System	-	-	504	472	504	472
Convention & Entertainment Facilities	-	-	106	114	106	114
Combined Utility System	-	-	850	843	850	843
Houston Area Water Corporation	-	-	10	15	10	15
Parking Management	-	-	7	5	7	5
Total expenses	<u>2,674</u>	<u>2,688</u>	<u>1,477</u>	<u>1,449</u>	<u>4,151</u>	<u>4,137</u>
Change in net assets before contributions, special items and transfers	(333)	(304)	(46)	72	(379)	(232)
Contributions	8	18	-	-	8	18
Transfers	72	70	(72)	(70)	-	-
Change in net assets	<u>(253)</u>	<u>(216)</u>	<u>(118)</u>	<u>2</u>	<u>(371)</u>	<u>(214)</u>
Net assets (deficit) beginning , as previously reported	2,202	2,418	1,475	1,473	3,677	3,891
Cumulative effect of a change in accounting principle	-	-	277	-	277	-
Beginning net assets, July 1, as restated	<u>2,202</u>	<u>2,418</u>	<u>1,752</u>	<u>1,473</u>	<u>3,954</u>	<u>3,891</u>
Net assets June 30	<u>\$ 1,949</u>	<u>\$ 2,202</u>	<u>\$ 1,634</u>	<u>\$ 1,475</u>	<u>\$ 3,583</u>	<u>\$ 3,677</u>

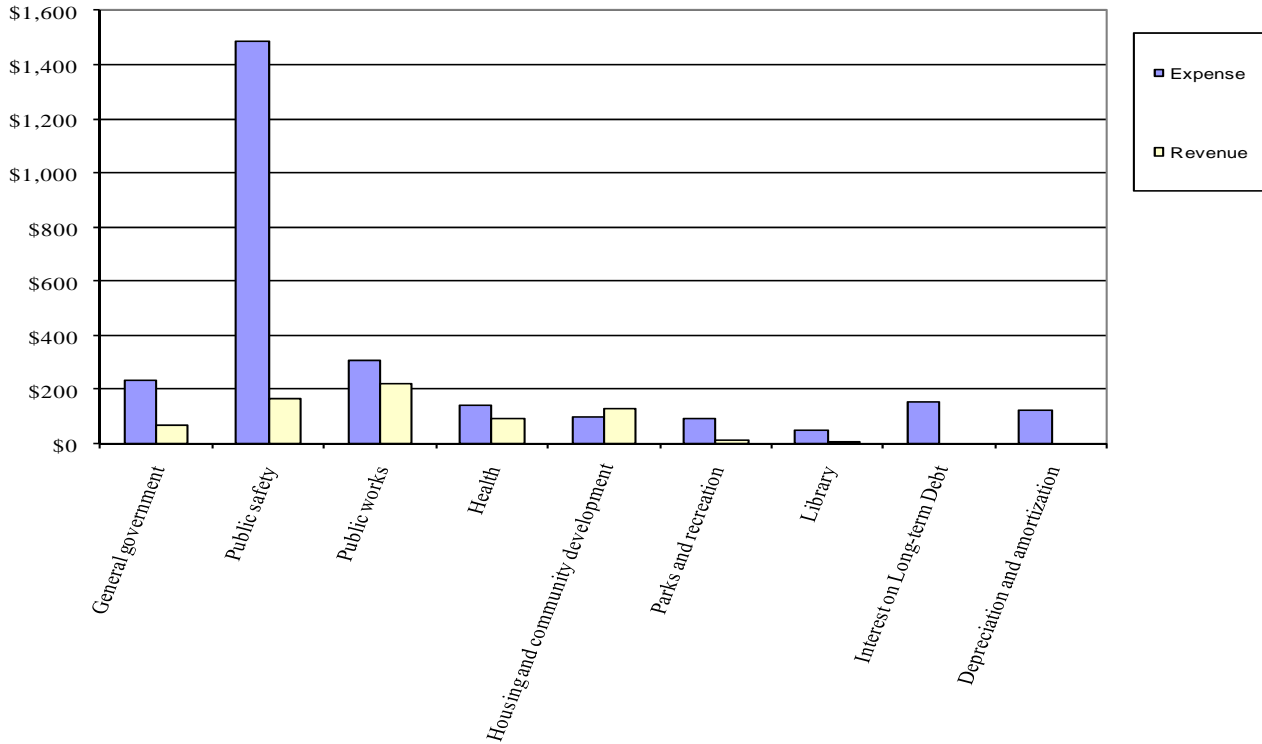
**Governmental activities.** Governmental activities decreased the City of Houston's net assets by \$253 million. Key elements of this change are as follows:

- Sales tax revenue continued to show declines during fiscal year 2010, providing a 7.5% decrease for the year, from \$507 million to \$469 million.
- The City's property tax rate remained at \$0.63875 per \$100 assessed value. Property tax revenue increased by \$5 million because of the City's rising property values and continued effort in the collection of delinquent taxes.
- The largest decrease in expenses was in the area of Public Works - \$112 million.
- The largest increase in expenses was in the area of Housing & Community Development - \$33 million.

### Revenue by Source - Governmental Activities



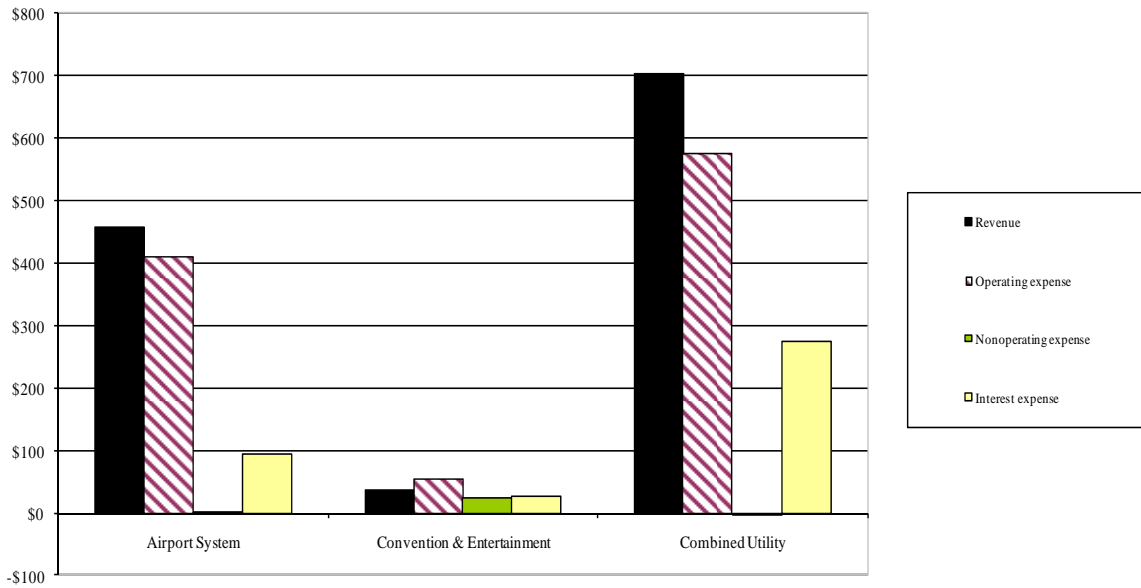
**Program Revenue and Expense  
Governmental**



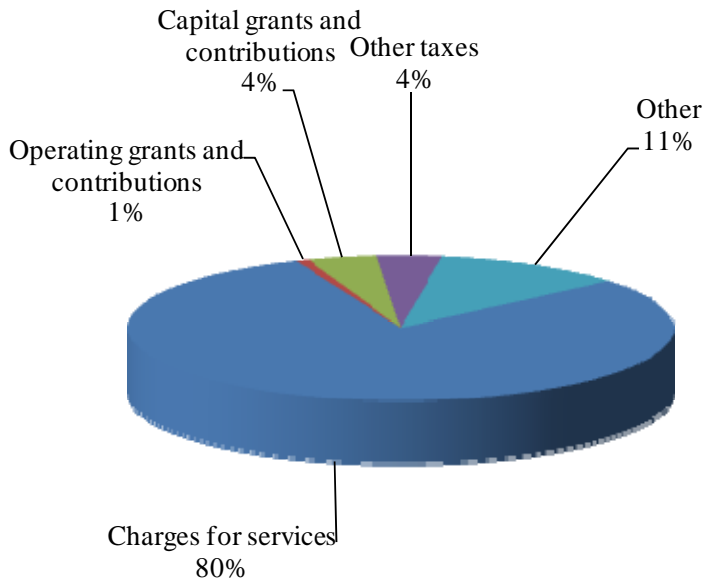
**Business-type activities.** Business-type activities decreased the City of Houston’s net assets by \$118 million. Key elements of this change are as follows:

- Airport systems operating expenses were up by 8.2%, from \$378 million to \$409 million. Operating revenues for these facilities were up by 5.4%, from \$386 million to \$407 million. Investment income decreased by 19% from \$37 million to \$30 million.
- Convention & Entertainment operating expenses were up by 1.9%, from \$54 million to \$55 million. Operating revenues were down by 2.9%, from \$21 million to \$20 million. Hotel occupancy taxes decreased by 11.3%, from \$62 million to \$55 million.
- The Combined Utility System operating expenses decreased by 0.1% from \$577 million to \$576 million. Operating revenues increased by 0.6% from \$687 million to \$691 million. Investment income was down by 54.5%, from \$33 million to \$15 million and interest expense was up by 5.4% from \$260 million to \$274 million.
- The Non-Major enterprise funds operating expenses decreased by 7.7% from \$18.3 million to \$16.9 million. Operating revenues increased by 3.0% from \$13.3 million to \$13.7 million. Investment income decreased 58.7% from \$281 thousand to \$118 thousand, and there was no interest expense.

**Program Revenue & Expense  
Business-type**



**Revenue by Source - 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 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 \$563 million. Approximately 53.8% of this total amount (\$303 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 (\$46 million), (2) to pay debt service (\$187 million), or (3) a variety of other restricted purposes (\$26 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 \$201 million, while the total fund balance reached \$224 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 11.4% of total general fund expenditures, while total fund balance represents 12.8% of that same amount.

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

- \$60 million decrease in total revenues
- \$36 million increase in expenditures
- \$37 million increase in proceeds for issuance of debt
- \$7 million increase in transfers from other funds
- \$3 million increase in transfers to other funds

Interest expenditures for the debt service fund increased by \$14 million. The net increase in fund balance was \$21 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 \$46 million. The net increase in fund balance during the current fiscal year was \$8 million.

**Proprietary funds (see 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, \$58 million for Convention and Entertainment, \$162 million deficit for the Combined Utility System and \$2 million for the Combined Non-Major Enterprise Funds. The total increase in net assets for the Airport System was \$58 million. The Convention and Entertainment funds, Combined Utility System funds and Combined Non-Major Enterprises funds experienced decreases of \$8 million, \$141 million and \$28 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 budget by \$36.4 million. The details of the more significant variances are detailed below:

- \$38 million decrease in sales taxes
- \$17 million decrease in property taxes
- \$5 million increase in franchise taxes
- \$11 million decrease in industrial assessments
- \$23 million increase in transfers in

Total expenditures for the General Fund were \$2 million below the final expenditure budget. The details of the more significant variances are detailed below:

- \$3 million decrease in total general government expenditures
- \$2 million increase in public safety expenditures
- \$1 million decrease in public works expenditures

## Capital Asset and Debt Administration

**Capital assets** (see Note 6). The City of Houston's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$15.8 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, equipment, storm drainage, streets and bridges. The City of Houston's net investment in capital assets was relatively stable.

### Capital Assets

June 30, 2010

(With comparative totals for 2009)

(net of accumulated depreciation in millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and right of way	\$ 2,076	\$ 2,056	\$ 426	\$ 429	\$ 2,502	\$ 2,485
Buildings, improvements and equipment	1,710	1,499	4,863	4,732	6,573	6,231
Plants, lines and rights	-	-	8,930	8,516	8,930	8,516
Construction in progress	417	449	746	748	1,163	1,197
Water rights	-	-	462	457	462	457
Garage rights	-	-	13	13	13	13
Infrastructure Assets	5,483	5,302	-	-	5,483	5,302
Less accumulated depreciation	(3,193)	(3,025)	(6,134)	(6,056)	(9,327)	(9,081)
Total	\$ 6,493	\$ 6,281	\$ 9,306	\$ 8,839	\$ 15,799	\$ 15,120

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

- Business-type activities construction in process balance reflects a \$2 million decrease.
- Business-type activities buildings, improvements & equipment reflects a \$131 million increase
- Business-type activities plants, lines & rights reflects a \$414 million increase
- Governmental-type activities buildings, improvements & equipment reflects a \$211 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). At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of \$12.3 billion. The two largest portions of this total are made up of \$3.4 billion comprising debt backed by the full faith and credit of the government and \$8.9 billion comprising various enterprise fund revenue bonds which are payable from future revenues of the various operations of those enterprise funds. The remainder of the City of Houston's debt represents various long-term contracts.

**Outstanding Debt**

**June 30, 2010**

(With comparative totals for 2009)

(in millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds and commercial paper	\$ 2,854	\$ 2,659	\$ 285	\$ 137	\$ 3,139	\$ 2,796
Pension notes	541	520	67	67	608	587
Inferior lien contract	-	-	42	46	42	46
Revenue bonds	-	-	8,479	8,152	8,479	8,152
Other borrowings	11	14	-	-	11	14
Total	<u>\$ 3,406</u>	<u>\$ 3,193</u>	<u>\$ 8,873</u>	<u>\$ 8,402</u>	<u>\$ 12,279</u>	<u>\$ 11,595</u>

The City's total debt increased by \$684 million or 5.9% during the current fiscal year.

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

- \$20 million of pension obligations to reduce unfunded accrued actuarial liability of the Houston Police Officers' Pension System.
- \$399 million of general obligation debt to fund capital projects and equipment purchases.
- \$360 million of combined utility system revenue bonds to fund system projects.



Standard & Poor's, Moody's and Fitch's underlying ratings of the City's obligations as of June 30, 2010 are as follows:

	<u>Std &amp; Poor's</u>	<u>Moody's</u>	<u>Fitch's</u>
General Obligation	AA	Aa2	AA
Water & Sewer System Junior Lien	AA	Aa2	AA
Combined Utility System First Lien	AA	Aa2	AA
Houston Airport System-Senior Lien	AA-	Aa3	n/r
Houston Airport System-Subordinate Lien	A	A2	A+
Convention & Entertainment	A-	A2	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 \$19.5 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 fiscal year 2011 budget are as follows:

- The property tax rate remained at 63.875 cents per \$100 of valuation.
- The public safety budget included funding to primarily provide resources for two police cadet classes and three fire cadet classes.

#### **Request for Information**

This financial report is designed to provide a general overview of the City of Houston's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8<sup>th</sup> Floor, Houston, Texas 77002.

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

**June 30, 2010**  
*(amounts expressed in thousands)*

	Governmental Activities	Business-type Activities	Total	Component Units	
				Governmental	Business-type
<b>Assets</b>					
Equity in pooled cash and investments	\$ 624,371	\$ 1,691,320	\$ 2,315,691	\$ 198,285	\$ 95,719
Receivables, net of allowances					
Accounts receivable	68,591	106,082	174,673	24,606	20,960
Contracts receivable	-	-	-	765	-
Hotel occupancy tax receivable	-	15,707	15,707	-	-
Property taxes receivable	44,225	-	44,225	-	-
Sales taxes receivable	83,073	-	83,073	-	-
Mixed beverage taxes receivable	2,913	-	2,913	-	-
Franchise taxes receivable	17,531	-	17,531	-	-
Special assessments receivable	12,207	93	12,300	-	-
Accrued interest and other	-	-	-	4,526	73
Due from component units	8,402	14,571	22,973	-	-
Internal balances	(16,188)	16,188	-	-	-
Due from other governments	122,655	12,829	135,484	356	1,765
Inventory	22,940	9,409	32,349	22,170	254
Prepaid items	3,417	6,520	9,937	191	1,499
Deferred charges for issuance cost	23,409	72,406	95,815	5,400	1,834
Investments	-	28,580	28,580	19,664	16,239
Other receivables	-	-	-	249	780
Noncurrent assets					
Noncurrent investments	-	-	-	17,048	-
Due from component units	-	276,788	276,788	-	-
Assessments receivable	-	-	-	2,885	-
Accrued interest receivable	-	-	-	-	4
Receivables and deposits	-	-	-	-	6,202
Amounts held by other government	-	10,288	10,288	-	-
Deferred inflow related to SWAP liability	-	182,419	182,419	-	-
Other assets	-	-	-	-	-
Other long-term receivables	-	-	-	-	4,200
Capital Assets					
Land and right-of-way	2,075,504	426,070	2,501,574	116,558	11,488
Buildings	887,428	2,733,573	3,621,001	44,929	321,151
Improvements and equipment	823,929	2,129,380	2,953,309	319	-
Plants, lines and rights	-	8,930,171	8,930,171	-	-
Construction in progress	417,220	745,421	1,162,641	-	22,437
Water rights	-	462,065	462,065	-	-
Garage rights	-	13,144	13,144	-	-
Infrastructure assets	5,482,761	-	5,482,761	-	-
Less accumulated depreciation and amortization	(3,193,450)	(6,134,136)	(9,327,586)	(11,491)	(88,055)
<b>Total assets</b>	<b>\$ 7,510,938</b>	<b>\$ 11,748,888</b>	<b>\$ 19,259,826</b>	<b>\$ 446,460</b>	<b>\$ 416,550</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, 2010**  
*(amounts expressed in thousands)*

	Governmental Activities	Business-type Activities	Total	Component Units	
				Governmental	Business-type
<b>Liabilities</b>					
Accounts payable and accrued expenditures	\$ 119,905	\$ 113,606	\$ 233,511	\$ 10,944	\$ 8,487
Accrued payroll liabilities	67,145	10,401	77,546	60	901
Accrued interest payable	50,901	90,938	141,839	6,028	2,886
Contracts and retainages payable	-	14,404	14,404	7,079	-
Notes payable	-	-	-	4,498	-
Inferior lien contracts	-	4,305	4,305	-	-
Due to component units	-	25,597	25,597	-	-
Due to other governments	7,978	1,113	9,091	3,903	-
Advances and deposits	12,331	41,257	53,588	572	-
Other liabilities	11	-	11	3,544	-
Unearned revenue	42,961	7,833	50,794	910	1,068
<b>Noncurrent liabilities</b>					
Due within one year					
Notes payable	-	-	-	-	11,445
Bonds payable	334,005	145,224	479,229	6,790	-
Claims and judgments	13,329	2,068	15,397	-	-
Compensated absences	139,481	14,272	153,753	22	-
Commercial paper	-	6,000	6,000	-	-
Arbitrage rebate liability	212	4,458	4,670	-	-
Other liabilities	2,180	-	2,180	-	-
Due in more than one year					
Due to City of Houston	-	-	-	-	255,727
Notes payable	-	-	-	49,069	-
Bonds payable	2,158,869	8,334,278	10,493,147	212,510	-
Claims and judgments	116,244	3,478	119,722	-	-
Compensated absences	288,453	17,318	305,771	-	-
Contracts payable	-	168,930	168,930	4,625	-
Commercial paper	360,500	279,300	639,800	-	-
Arbitrage rebate liability	42	141	183	-	-
Inferior lien contracts	-	37,430	37,430	-	-
Municipal net pension obligation	247,090	99,734	346,824	-	-
Police officers' net pension obligation	425,173	-	425,173	-	-
Firefighter's net pension obligation	13,447	-	13,447	-	-
Deferred outflow related to SWAP liability	-	182,419	182,419	-	-
Deferred revenue	-	356,310	356,310	80	13,924
Other post employment benefits obligation	613,591	86,990	700,581	-	-
Pension obligation bonds payable	540,578	67,048	607,626	-	-
Other long-term liabilities	7,830	-	7,830	-	4,767
<b>Total liabilities</b>	<b>5,562,256</b>	<b>10,114,852</b>	<b>15,677,108</b>	<b>310,634</b>	<b>299,205</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	3,677,425	893,832	4,571,257	108,245	(35,453)
Restricted net assets					
Restricted for debt service	142,028	173,437	315,465	36,704	7,952
Restricted for renewal and replacement	-	10,000	10,000	-	-
Restricted for maintenance and operations	-	126,762	126,762	8,817	-
Restricted for capital improvement	46,443	532,099	578,542	30,034	-
Other restricted	10,988	-	10,988	65,462	44,503
Unrestricted (deficit)	(1,928,202)	(102,094)	(2,030,296)	(113,436)	100,343
<b>Total net assets (deficit)</b>	<b>\$ 1,948,682</b>	<b>\$ 1,634,036</b>	<b>\$ 3,582,718</b>	<b>\$ 135,826</b>	<b>\$ 117,345</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, 2010  
(amounts expressed in thousands)**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 232,466	\$ 20,544	\$ 46,191	\$ -
Public safety	1,485,999	143,274	19,676	-
Public works	305,768	45,011	70,207	109,190
Health	139,693	15,110	76,942	-
Housing and community development	96,349	900	127,191	-
Parks and recreation	93,676	6,977	5,244	-
Library	48,721	1,261	1,494	-
Interest on long-term debt	151,807	-	-	-
Unallocated Depreciation	119,719	-	-	-
Total governmental activities	2,674,198	233,077	346,945	109,190
Business-type activities				
Airport System	504,472	406,579	-	51,457
Convention & Entertainment facilities	105,703	31,833	4,413	-
Combined Utility System	849,674	691,162	6,297	7,215
Houston Area Water Corporation	9,949	-	-	-
Parking Management	6,969	13,676	-	-
Total business-type activities	1,476,767	1,143,250	10,710	58,672
<b>Total primary government</b>	<b>\$ 4,150,965</b>	<b>\$ 1,376,327</b>	<b>\$ 357,655</b>	<b>\$ 167,862</b>
<b>Component Units</b>				
Governmental	141,701	7,497	46,158	-
Business-type	92,657	90,324	6,546	-
<b>Total component units activities</b>	<b>\$ 234,358</b>	<b>\$ 97,821</b>	<b>\$ 52,704</b>	<b>\$ -</b>

**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 , as previously reported

Cumulative effect of a change in accounting principle (see Note 1)

Cumulative effect of change in reporting entity (see Note 16)

Beginning net assets, July 1, as restated

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	
\$ (165,731)	\$ -	\$ (165,731)	\$ -	\$ -	
(1,323,049)	-	(1,323,049)	-	-	
(81,360)	-	(81,360)	-	-	
(47,641)	-	(47,641)	-	-	
31,742	-	31,742	-	-	
(81,455)	-	(81,455)	-	-	
(45,966)	-	(45,966)	-	-	
(151,807)	-	(151,807)	-	-	
(119,719)	-	(119,719)	-	-	
<u>(1,984,986)</u>	<u>-</u>	<u>(1,984,986)</u>	<u>-</u>	<u>-</u>	
-	(46,436)	(46,436)	-	-	
-	(69,457)	(69,457)	-	-	
-	(145,000)	(145,000)	-	-	
-	(9,949)	(9,949)	-	-	
-	6,707	6,707	-	-	
-	(264,135)	(264,135)	-	-	
<u>(1,984,986)</u>	<u>(264,135)</u>	<u>(2,249,121)</u>	<u>-</u>	<u>-</u>	
-	-	-	(88,046)	-	
-	-	-	-	4,213	
-	-	-	<u>(88,046)</u>	<u>4,213</u>	
655,759	-	655,759	82,303	750	
240,020	-	240,020	-	-	
15,817	-	15,817	-	-	
468,965	-	468,965	-	-	
191,292	-	191,292	-	-	
10,382	-	10,382	-	-	
195	-	195	-	-	
-	54,917	54,917	-	-	
16,673	57,736	74,409	3,947	2,473	
53,101	105,462	158,563	5,355	8,175	
7,666	-	7,666	-	-	
-	-	-	54	-	
72,035	(72,035)	-	(686)	-	
<u>1,731,905</u>	<u>146,080</u>	<u>1,877,985</u>	<u>90,973</u>	<u>11,398</u>	
<u>(253,081)</u>	<u>(118,055)</u>	<u>(371,136)</u>	<u>2,927</u>	<u>15,611</u>	
2,201,763	1,474,869	3,676,632	130,606	101,734	
-	277,222	277,222	-	-	
-	-	-	2,293	-	
<u>2,201,763</u>	<u>1,752,091</u>	<u>3,953,854</u>	<u>132,899</u>	<u>101,734</u>	
<u>\$ 1,948,682</u>	<u>\$ 1,634,036</u>	<u>\$ 3,582,718</u>	<u>\$ 135,826</u>	<u>\$ 117,345</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, 2010**  
*amounts expressed in thousands*

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>Assets</b>			
Equity in pooled cash and investments	\$ 182,675	\$ 182,188	\$ 110,021
Receivables, net of allowances			
Accounts receivable	30,734	-	-
Contracts receivable	-	-	-
Hotel occupancy tax receivable	-	-	-
Property taxes receivable	44,225	-	-
Sales taxes receivable	83,073	-	-
Mixed beverage taxes receivable	2,913	-	-
Franchise taxes receivable	17,531	-	-
Special assessments receivable	12,207	-	-
Due from component units	-	5,488	-
Due from other funds	12,806	-	844
Due from other governments	2,917	-	33,026
Inventory	20,875	-	-
Prepaid items	2,021	-	230
Total assets	\$ 411,977	\$ 187,676	\$ 144,121
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	43,005	230	36,787
Accrued payroll liabilities	60,243	-	-
Accrued interest payable	-	-	-
Contracts and retainages payable	-	-	-
Notes payable	-	-	-
Due to other funds	3,089	-	132
Due to component units	-	-	-
Due to other governments	588	-	-
Advances and deposits	10,001	-	31
Claims and judgments	1,697	-	-
Compensated absences	4,023	-	-
Other liabilities	-	-	-
Unearned revenue	65,309	5,488	60,728
Total liabilities	187,955	5,718	97,678
<b>Fund balance</b>			
Reserved for imprest cash and prepaids	2,128	-	230
Reserved for equipment acquisitions and other capital outlay	-	-	46,213
Reserved for inventory	20,875	-	-
Reserved for debt service	-	181,958	-
Unreserved	201,019	-	-
Unreserved - Special revenue funds and grant funds	-	-	-
Total fund balance	224,022	181,958	46,443
<b>Total liabilities and fund balance</b>	<b>\$ 411,977</b>	<b>\$ 187,676</b>	<b>\$ 144,121</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 \*

	<b>Grants</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$	32,973	\$ 98,980	\$ 606,837
	11,731	19,028	61,493
	-	-	-
	-	-	-
	-	-	44,225
	-	-	83,073
	-	-	2,913
	-	-	17,531
	-	-	12,207
	2,914	-	8,402
	2,409	420	16,479
	82,852	2,370	121,165
	1,802	263	22,940
	-	1,163	3,414
<b>\$</b>	<b>134,681</b>	<b>\$ 122,224</b>	<b>\$ 1,000,679</b>

	32,601	7,147	119,770
	2,297	4,476	67,016
	-	-	-
	-	-	-
	-	-	-
	27,891	966	32,078
	-	-	-
	1,131	6,259	7,978
	180	2,119	12,331
	-	-	1,697
	12	184	4,219
	-	11	11
	44,088	16,923	192,536
	108,200	38,085	437,636

	-	1,163	3,521
	-	-	46,213
	1,802	263	22,940
	5,483	-	187,441
	-	-	201,019
	19,196	82,713	101,909
	26,481	84,139	563,043
<b>\$</b>	<b>134,681</b>	<b>\$ 122,224</b>	

6,493,392  
181,867

7,144

(5,296,764)

1,948,682

\* 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, 2010*  
*amounts expressed in thousands*

	General	Debt Service	Capital Projects
<b>Revenues</b>			
Taxes and assessments	\$ 1,579,092	\$ -	\$ -
Licenses and permits	18,636	-	-
Charges for services	97,074	-	-
Intergovernmental - grants	32,176	-	58,762
Fines and forfeits	40,124	-	-
Contributions	-	-	-
Investment income	6,446	4,164	2,568
Other	12,883	732	7,456
Total revenues	<u>1,786,431</u>	<u>4,896</u>	<u>68,786</u>
<b>Expenditures</b>			
Current Expenditures			
General government	157,635	-	-
Public safety	1,111,044	-	-
Public works	206,047	-	-
Health	48,266	-	-
Housing and community development	832	-	-
Parks and recreation	66,928	-	-
Library	37,215	-	-
Retiree benefits	18,897	-	-
Capital outlay	108,339	-	274,778
Debt Service			
Debt service principal	-	186,251	-
Debt service interest	878	146,108	-
Debt service fiscal agent & fees	-	6,599	-
Total expenditures	<u>1,756,081</u>	<u>338,958</u>	<u>274,778</u>
<b>Other financing sources (uses)</b>			
Issuance of debt	124,078	522,780	279,922
Discount on long-term debt	-	34,166	-
Sale of capital assets	7,756	-	-
Transfers in	43,495	350,890	-
Transfers out	(285,604)	-	(65,714)
Payment to escrow agent for refunded bonds	-	(553,230)	-
Total other financing sources (uses)	<u>(110,275)</u>	<u>354,606</u>	<u>214,208</u>
Changes in fund balance	(79,925)	20,544	8,216
Fund balances, July 1	303,947	161,414	38,227
<b>Fund balances, June 30</b>	<u>\$ 224,022</u>	<u>\$ 181,958</u>	<u>\$ 46,443</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>
\$ -	\$ 424	\$ 1,579,516
-	36,639	55,275
-	27,716	124,790
296,466	16,115	403,519
-	19,912	60,036
20	-	20
1,257	2,238	16,673
-	34,528	55,599
<u>297,743</u>	<u>137,572</u>	<u>2,295,428</u>
17,146	23,022	197,803
55,007	78,112	1,244,163
5,916	73,554	285,517
75,221	3,481	126,968
99,053	827	100,712
4,993	6,796	78,717
1,496	-	38,711
-	-	18,897
-	13,760	396,877
-	-	186,251
-	-	146,986
-	-	6,599
<u>258,832</u>	<u>199,552</u>	<u>2,828,201</u>
-	-	926,780
-	-	34,166
-	1,336	9,092
-	42,523	436,908
(4,349)	(9,206)	(364,873)
-	-	(553,230)
<u>(4,349)</u>	<u>34,653</u>	<u>488,843</u>
34,562	(27,327)	(43,930)
(8,081)	111,466	606,973
<u>\$ 26,481</u>	<u>\$ 84,139</u>	<u>\$ 563,043</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, 2010  
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds	\$	(43,930)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 (\$192,114) was less than the increase in capital assets (\$404,086) in the current period.</p>		211,972
<p>Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds.</p>		148,448
<p>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.</p>		(89,974)
<p>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.</p>		(212,587)
<p>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.</p>		(270,712)
<p>Internal service funds are used by management to charge 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.</p>		3,702
Change in net assets of governmental activities	<u>\$</u>	<u>(253,081)</u>

\* 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, 2010**  
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>			
Equity in pooled cash and investments	\$ 1,018,843	\$ 99,915	\$ 568,969
Receivables, net of allowances			
Accounts receivable	24,976	1,104	79,643
Hotel occupancy tax receivable	-	15,707	-
Special assessments receivable	-	-	93
Due from component units	-	14,571	-
Due from other funds	10,832	167	7,629
Due from other governments	6,476	700	5,653
Inventory	2,490	-	6,919
Prepaid items	2,305	852	3,363
Restricted assets			
Investments	6,806	21,774	-
Total current assets	1,072,728	154,790	672,269
<b>Noncurrent Assets</b>			
Due from component units	-	276,788	-
Amounts held by other governments	-	-	10,288
Deferred inflow related to SWAP liability			182,419
Deferred charges for issuance cost	9,389	2,921	60,096
Total noncurrent restricted assets	9,389	279,709	252,803
<b>Capital assets</b>			
Land	209,738	94,871	121,461
Buildings	2,006,729	554,727	172,117
Improvements and equipment	1,992,095	12,322	124,031
Infrastructure	-	334	8,925,509
Construction in progress	470,551	2,488	272,363
Water rights	-	-	462,065
Garage rights	-	13,144	-
Less accumulated depreciation and amortization	(1,623,137)	(187,569)	(4,322,670)
Net capital assets	3,055,976	490,317	5,754,876
Total noncurrent assets	3,065,365	770,026	6,007,679
<b>Total assets</b>	<b>\$ 4,138,093</b>	<b>\$ 924,816</b>	<b>\$ 6,679,948</b>

\* 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>Non-Major Enterprise</b>	<b>Total</b>	
\$ 3,593	\$ 1,691,320	\$ 17,534
359	106,082	2
-	15,707	-
-	93	-
-	14,571	-
2	18,630	1
-	12,829	1,490
-	9,409	-
-	6,520	3
-	28,580	-
<u>3,954</u>	<u>1,903,741</u>	<u>19,030</u>
-	276,788	-
-	10,288	-
-	182,419	-
-	72,406	-
-	541,901	-
-	426,070	-
-	2,733,573	6
932	2,129,380	-
4,328	8,930,171	-
19	745,421	348
-	462,065	-
-	13,144	-
(760)	(6,134,136)	(1)
<u>4,519</u>	<u>9,305,688</u>	<u>353</u>
<u>4,519</u>	<u>9,847,589</u>	<u>353</u>
\$ 8,473	\$ 11,751,330	\$ 19,383

\* 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, 2010**  
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	\$ 44,541	\$ 2,716	\$ 65,718
Accrued payroll liabilities	4,151	440	5,679
Accrued interest payable	54,958	4,678	31,302
Contracts payable	-	-	14,404
Due to other funds	538	-	1,042
Due to component units	-	25,597	-
Due to other governments	-	48	1,065
Advances and deposits	1,492	848	38,917
Arbitrage rebate liability	-	473	3,985
Inferior lien contracts	4,305	-	-
Claims and judgments	910	3	1,119
Compensated absences	5,113	661	8,342
Commercial paper	6,000	-	-
Revenue bonds payable	47,335	23,260	74,629
Unearned revenue	7,830	3	-
Total current liabilities	177,173	58,727	246,202
<b>Noncurrent liabilities</b>			
Revenue bonds payable	2,409,178	581,107	5,343,993
Claims and judgments	2,428	-	1,030
Compensated absences	5,717	615	10,904
Contracts payable	-	-	168,930
Inferior lien contracts	37,430	-	-
Commercial paper	-	43,800	235,500
Arbitrage rebate liability	-	-	141
Municipal pension trust liability	37,205	3,930	58,303
Other post employment benefits	29,997	2,381	53,751
Deferred outflow related to SWAP liability	-	-	182,419
Deferred revenue	-	39	356,271
Pension obligation bonds payable	2,006	3,884	61,158
Total noncurrent liabilities	2,523,961	635,756	6,472,400
<b>Total liabilities</b>	2,701,134	694,483	6,718,602
<b>Net assets (deficit)</b>			
Invested in capital assets, net of related debt	701,767	139,395	48,150
Restricted for debt service	156,341	17,096	-
Restricted for renewal and replacement	10,000	-	-
Restricted for maintenance and operations	42,405	15,977	69,242
Restricted for capital improvements	526,446	-	5,653
Unrestricted	-	57,865	(161,699)
<b>Total net assets (deficit)</b>	\$ 1,436,959	\$ 230,333	\$ (38,654)

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>Non-Major Enterprise</b>	<b>Total</b>	
631	\$ 113,606	\$ 135
131	10,401	129
-	90,938	-
-	14,404	-
-	1,580	1,452
-	25,597	-
-	1,113	-
-	41,257	-
-	4,458	-
-	4,305	-
36	2,068	3,345
156	14,272	175
-	6,000	-
-	145,224	-
-	7,833	1,787
<u>954</u>	<u>483,056</u>	<u>7,023</u>
-	8,334,278	-
20	3,478	5,556
82	17,318	169
-	168,930	-
-	37,430	-
-	279,300	-
-	141	-
296	99,734	-
861	86,990	-
-	182,419	-
-	356,310	-
-	67,048	-
<u>1,259</u>	<u>9,633,376</u>	<u>5,725</u>
<u>2,213</u>	<u>10,116,432</u>	<u>12,748</u>
4,520	893,832	353
-	173,437	-
-	10,000	-
-	127,624	-
-	532,099	-
1,740	(102,094)	6,282
<u>\$ 6,260</u>	<u>1,634,898</u>	<u>\$ 6,635</u>
	(862)	
	<u>\$ 1,634,036</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, 2010**  
**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	\$ 94,165	\$ -	\$ -
Terminal space rentals	182,105	-	-
Parking	70,127	9,835	-
Concession	55,872	3,283	-
Other	4,310	-	-
Rental	-	7,180	-
Water/Sewer Billing	-	-	691,138
Health benefit premiums	-	-	-
Total operating revenue	<u>406,579</u>	<u>20,298</u>	<u>691,138</u>
<b>Operating Expenses</b>			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	245,051	39,817	372,370
Depreciation and amortization	164,186	14,958	203,695
Total operating expenses	<u>409,237</u>	<u>54,775</u>	<u>576,065</u>
Operating income (loss)	<u>(2,658)</u>	<u>(34,477)</u>	<u>115,073</u>
<b>Nonoperating revenue (expenses)</b>			
Investment income	30,487	11,971	15,160
Hotel occupancy tax	-	54,917	-
Other revenue	7,525	1,790	28,591
Gain (Loss) on disposal of assets	(198)	11,535	24
Other expenses	-	(24,896)	-
Interest on long-term debt	(95,037)	(26,032)	(273,609)
Passenger facility charges	66,383	-	-
Contributions	-	4,413	6,297
Total nonoperating revenues (expenses)	<u>9,160</u>	<u>33,698</u>	<u>(223,537)</u>
Income (loss) before capital contributions and transfers	<u>6,502</u>	<u>(779)</u>	<u>(108,464)</u>
Capital contributions	<u>51,457</u>	<u>-</u>	<u>7,215</u>
Transfers in	-	1,259	22,950
Transfers out	-	(8,092)	(62,596)
Total transfers	<u>-</u>	<u>(6,833)</u>	<u>(39,646)</u>
Change in net assets	57,959	(7,612)	(140,895)
Liability resulting from internal service fund's undercharging proprietary funds	-	-	-
Net change	<u>57,959</u>	<u>(7,612)</u>	<u>(140,895)</u>
Total net assets (deficit), July 1, as previously reported	<u>1,379,000</u>	<u>237,945</u>	<u>(174,981)</u>
Cumulative effect of a change in an accounting principle	-	-	277,222
Beginning net assets, July 1, as restated	<u>1,379,000</u>	<u>237,945</u>	<u>102,241</u>
<b>Total net assets (deficit), June 30</b>	<u>\$ 1,436,959</u>	<u>\$ 230,333</u>	<u>\$ (38,654)</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 Enterprise</b>	<b>Total</b>	
\$ -	\$ 94,165	\$ -
-	182,105	-
13,676	93,638	-
-	59,155	-
-	4,310	1,164
-	7,180	-
-	691,138	-
-	-	311,855
<u>13,676</u>	<u>1,131,691</u>	<u>313,019</u>
6,492	6,492	3,691
-	-	306,199
6,565	663,803	-
3,861	386,700	1
<u>16,918</u>	<u>1,056,995</u>	<u>309,891</u>
<u>(3,242)</u>	<u>74,696</u>	<u>3,128</u>
118	57,736	574
-	54,917	-
411	38,317	-
-	11,361	-
-	(24,896)	-
-	(394,678)	-
-	66,383	-
-	10,710	-
<u>529</u>	<u>(180,150)</u>	<u>574</u>
<u>(2,713)</u>	<u>(105,454)</u>	<u>3,702</u>
-	58,672	-
6,923	31,132	-
<u>(32,479)</u>	<u>(103,167)</u>	<u>-</u>
<u>(25,556)</u>	<u>(72,035)</u>	<u>-</u>
(28,269)	(118,817)	3,702
	762	
<u>(28,269)</u>	<u>(118,055)</u>	<u>3,702</u>
34,529	1,476,493	2,933
	277,222	
<u>34,529</u>	<u>1,753,715</u>	<u>2,933</u>
<u>\$ 6,260</u>	1,635,660	<u>\$ 6,635</u>
	(1,624)	
	<u>\$ 1,634,036</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**  
**For the Fiscal Year Ended June 30, 2010**  
**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>Cash flows from operating activities</b>			
Receipts from customers	\$ 391,367	\$ 19,861	\$ 708,961
Payments to employees	(95,396)	(9,855)	(144,032)
Payments to suppliers	(100,890)	(30,086)	(212,748)
Internal activity-payments (to) from other funds	(52,387)	(1,551)	(22,124)
Claims paid	(910)	(29)	(406)
Due to other governments	-	(7)	-
Other revenues	5,775	1,790	28,591
Other expenses	-	(2,643)	-
Net cash provided by (used in) operating activities	<u>147,559</u>	<u>(22,520)</u>	<u>358,242</u>
<b>Cash flows from investing activities</b>			
Interest income on investments	30,487	11,971	15,160
Purchase of investments	(9,022)	-	-
Proceeds from sale of investments	9,043	-	-
Net cash provided by (used in) investing activities	<u>30,508</u>	<u>11,971</u>	<u>15,160</u>
<b>Cash flows from capital and related financing activities</b>			
Retirement of revenue bonds	(45,490)	(21,230)	(108,020)
Refunding of revenue bonds	-	-	(249,075)
Retirement of commercial paper	(87,000)	-	(124,500)
Proceeds (uses of cash) from issuance of revenue bonds	443,288	-	263,450
Proceeds from issuance of commercial paper	-	-	360,000
Passenger facilities charges	66,383	-	-
Acquisition of water rights	-	-	(5,150)
Interest expense on debt	(98,822)	(16,034)	(263,068)
Retirement of inferior lien contract	(4,085)	-	-
Proceeds from disposition of assets	-	7,500	4,542
Advances and deposits on construction	(337)	-	-
Contributed capital	55,304	-	(79,696)
Bond issuance costs	-	-	(4,708)
Acquisition of property, plant and equipment	(256,026)	(1,360)	(296,116)
Due from other funds (HAWC)	-	-	96,859
Net cash provided by (used in) capital and related financing activities	<u>73,215</u>	<u>(31,124)</u>	<u>(405,482)</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>Non-Major Enterprise</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 13,573	\$ 1,133,762	\$ 311,854
(2,772)	(252,055)	(2,835)
(9,175)	(352,899)	(431)
4,552	(71,510)	(1,783)
-	(1,345)	(306,375)
-	(7)	-
411	36,567	1,164
-	(2,643)	-
<u>6,589</u>	<u>489,870</u>	<u>1,594</u>
118	57,736	574
-	(9,022)	-
-	9,043	-
<u>118</u>	<u>57,757</u>	<u>574</u>
-	(174,740)	-
-	(249,075)	-
-	(211,500)	-
-	706,738	-
-	360,000	-
-	66,383	-
-	(5,150)	-
-	(377,924)	-
-	(4,085)	-
-	12,042	-
551	214	-
-	(24,392)	-
-	(4,708)	-
(1,083)	(554,585)	-
-	96,859	-
<u>(532)</u>	<u>(363,923)</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, 2010**  
**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>Cash flows from noncapital financing activities</b>			
Promotional contract paid from hotel occupancy tax revenues to component units	-	(22,254)	-
Interest expense on pension obligation bonds	(106)	(10)	-
Deferred charges on future debt issuance	468	-	-
Payments from Hotel Corporation	-	15,703	-
Hotel occupancy tax revenue	-	54,513	-
Transfers to debt service fund	-	-	(26,828)
Transfers from (to) other funds	-	(6,833)	(12,817)
Net cash provided by (used in) noncapital financing activities	<u>362</u>	<u>41,119</u>	<u>(39,645)</u>
Net increase (decrease) in cash and cash equivalents	251,644	(554)	(71,725)
Cash and cash equivalents, July 1	767,199	100,469	640,694
<b>Cash and cash equivalents, June 30</b>	<u>\$ 1,018,843</u>	<u>\$ 99,915</u>	<u>\$ 568,969</u>
<b>Non cash transactions</b>			
Capital additions included in liabilities	(9,462)	-	-
Contributions of capital assets	(427)	-	(7,215)
Capitalize interest expense	16,496	-	13,878
CAB accretion interest	-	-	15,968
Gain (loss) on disposal of assets	198	8,923	(24)
Total non cash transactions	<u>\$ 6,805</u>	<u>\$ 8,923</u>	<u>\$ 22,607</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ (2,658)	\$ (34,477)	\$ 115,071
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	164,186	14,958	203,696
Other post employment benefits	3,876	743	16,859
Other revenues	7,525	1,790	28,590
Other expenses	-	(2,643)	-
Changes in assets and liabilities			
Accounts receivable	(21,529)	(21)	16,272
Arbitrage rebate	-	-	(1,142)
Due from other funds	(9,559)	35	5,630
Due from other governments	549	-	(1,879)
Inventory and prepaid insurance	201	-	593
Accounts payable	(8,751)	(2,724)	(24,108)
Accrued payroll liabilities	421	45	211
Due to other funds	202	(345)	(8,547)
Due to other governments	-	(7)	-
Advances and deposits	4,018	(47)	1,552
Claims and judgments-workers' compensation	(1,098)	3	62
Compensated absences	827	73	(104)
Pension obligation payable	9,349	420	5,486
Deferred revenue	-	(435)	-
Other long-term liabilities	-	112	-
Net cash provided by (used in) operating activities	<u>\$ 147,559</u>	<u>\$ (22,520)</u>	<u>\$ 358,242</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>Non-Major Enterprise</b>	<b>Total</b>	<b>Internal Service Funds</b>
-	(22,254)	-
-	(116)	-
-	468	-
-	15,703	-
-	54,513	-
-	(26,828)	-
(11,219)	(30,869)	-
<u>(11,219)</u>	<u>\$ (9,383)</u>	<u>-</u>
(5,044)	174,321	2,168
8,638	1,517,000	15,366
<u>\$ 3,594</u>	<u>\$ 1,691,321</u>	<u>\$ 17,534</u>
-	(9,462)	-
-	(7,642)	-
-	30,374	-
-	15,968	-
-	9,097	-
<u>\$ -</u>	<u>\$ 38,335</u>	<u>\$ -</u>
\$ (3,242)	\$ 74,694	\$ 3,128
3,861	386,701	-
-	21,478	-
7,333	45,238	-
-	(2,643)	-
(655)	(5,933)	(1)
-	(1,142)	-
8	(3,886)	(1,600)
-	(1,330)	(429)
-	794	-
(1,242)	(36,825)	(80)
18	695	9
-	(8,690)	329
-	(7)	-
-	5,523	-
45	(988)	(154)
37	833	54
426	15,681	-
-	(435)	338
-	112	-
<u>\$ 6,589</u>	<u>\$ 489,870</u>	<u>\$ 1,594</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, 2010**  
*amounts expressed in thousands*

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 18,010	\$ 29,577
Investments		
U.S. government and agency securities	1,591	-
Corporate bonds	137,937	-
Other fixed income securities	1,667,879	-
Commingled equity funds	555,114	-
Common and preferred stock	2,476,655	-
Real estate and partnerships	2,302,142	-
Short-term investment funds	332,883	-
Invested securities lending collateral	545,963	-
Receivables, net of allowances		
Accounts receivable	30,368	121
Contributions	7,068	-
Accrued interest and other	51,988	-
Other Assets	8,954	-
Land	483	-
Building	6,323	-
Total assets	8,143,358	29,698
<b>Liabilities</b>		
Accounts payable	54,419	29,568
Advances and deposits	-	130
Security lending collateral	545,963	-
Foreign funds contracts payable	15,356	-
Other liabilities	5,462	-
Total liabilities	621,200	\$ 29,698
<b>Net assets</b>		
Held in trust for pension benefits and other purposes	\$ 7,522,158	

\* 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 Year Ended June 30, 2010**  
*amounts expressed in thousands*

	<b>2010</b>
<b>Additions</b>	
Contributions:	
City of Houston	\$ 229,471
Plan members	76,682
Total Contributions	306,153
Investment earnings	
Interest and dividends	169,333
Net decrease in the fair value of investments	819,581
Total investment loss	988,914
Less investment expense	(27,887)
Net investment loss	961,027
Total additions	1,267,180
<b>Deductions</b>	
Benefits	491,080
Refund of contributions	2,109
Administrative expense	21,657
Total deductions	514,846
Change in net assets	752,334
Total net assets, July 1	6,769,824
Total net assets, June 30	\$ 7,522,158

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





**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

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CITY OF HOUSTON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2010



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The significant accounting policies of the City are as follows:

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

The accompanying financial statements include financial statements for related organizations in accordance with GASB Statement No.14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

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

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

**1. Component Units**

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

There are three specific tests for determining whether a particular legally separate entity is a component unit of a primary government's financial reporting entity. Those tests involve 1) appointment of the unit's governing board (accompanied by either the potential imposition of will or ongoing financial benefit/burden), 2) fiscal dependence on the primary government, and 3) the potential that exclusion would result in misleading financial reporting. For this last test, special attention must be paid 1) to certain special financing authorities and 2) to the nature and significance of a legally separate, tax-exempt entity's relationship with the primary government and its component units.

Following are the City's blended component units:

**Blended Component Units Reported with the Primary Government**

**Brief Description of Activities, Relationship to the City and Key Inclusion Criteria**

*Houston Area Water Corporation  
611 Walker, Suite 2100  
Houston, TX 77002*

The Corporation is organized for the purpose of: providing treated, potable water to the City of Houston for sale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District, and; aiding and assisting the City of Houston in performing its obligations with respect to a regional groundwater reduction plan by, among other things, constructing, improving, equipping, repairing, operating and maintaining water treatment and distribution facilities and purchasing and selling water in connection therewith. The City appoints its Board and a financial benefit/burden relationship exists, allowing the city to impose its will. In addition, there is a fiscal dependency on the City. During FY2010, the Corporation was dissolved and all assets were transferred to the City.

**Reporting Fund:** Business Type, Non-Major

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**Blended Component Units Reported with  
the Primary Government**

**Brief Description of Activities, Relationship to the City and Key Inclusion Criteria**

*Houston Firefighters' Relief & Retirement  
Fund  
4225 Interwood North Parkway  
Houston, TX 77032*

Responsible for administration, management, and operation of the pension system solely for active and retired City of Houston firefighters. One member of the Board is either the Mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

**Reporting Fund:** Houston Firefighters' Relief and Retirement Pension Trust Fund.

*Houston Municipal Employee's  
Pension System  
1111 Bagby, Suite 2450  
Houston, TX 77002*

Responsible for administration, management, and operation of the pension system solely for active and retired municipal (non-classified) employees of the City. One member of the Board is appointed by the Mayor, one member of the Board is appointed by the City Controller, four are elected by active employees, two are elected by retirees, one is appointed by the elected trustees and two are appointed by the governing body of the City. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

**Reporting Fund:** Houston Municipal Employee's Pension Trust Fund.

*Houston Police Officer's Pension  
System  
602 Sawyer, Suite 300  
Houston, TX 77007*

Responsible for administration, management, and operation of the pension system solely for active and retired police officers of the City. One member of the Board is appointed by the Mayor, three are elected by employees, two are elected by retirees, and one is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

**Reporting Fund:** Police Officer's Pension Trust Fund.

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

**Discretely Reported Component Units**

**Brief Description of Activities, Relationship to City, and Key Inclusion Criteria**

*Houston Convention Center Hotel  
Corporation  
c/o George R. Brown  
Avenida De Las Americas  
Houston, TX 77010*

Local government corporation created by the City in accordance with the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code authorized to construct, improve, enlarge, equip, repair, operate and maintain a hotel in downtown Houston within one thousand feet of the George R. Brown Convention Center. Board members are appointed by the Mayor and confirmed by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.

*Houston Housing Finance Corporation  
9545 Katy Freeway, Suite 105  
Houston, TX 77024*

Non-profit corporation incorporated by the City in accordance with the Texas Housing Finance Corporation Act to finance residential mortgage loans to low or moderate-income persons through the sale of revenue bonds collateralized by the mortgage loans. The Board is nominated by the Mayor and confirmed by City Council. The City has financial accountability because it appoints a voting majority of the Board and a financial benefit/burden relationship exists, allowing the City to impose its will.

*Houston Zoo, Inc.  
1513 N. MacGregor  
Houston, TX 77030*

Houston Zoo, Inc. (HZI) is a 501(c)(3) corporation and has a contract with Houston Zoo Development Corp to operate the Zoo. The Mayor may appoint up to 20% of the Board of Directors of HZI. Houston Zoo Development Corporation (HZDC) is a local government corporation that leases the zoo from the City. The lease provides for the City to make payments in support of capital and operating expenses over the lease term, which it makes available to HZI. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting.

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

<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<p><b><i>City Park Redevelopment Authority</i></b>  <i>c/o Land Development, Inc.</i>  <i>P.O. Box 994</i>  <i>Sugarland, Texas 77487-0494</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the City Park Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood northwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by the City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><b><i>East Downtown Redevelopment Authority</i></b>  <i>c/o Vincent &amp; Elkins, LLP</i>  <i>1001 Fannin St., Suite 2500</i>  <i>Houston, Texas 77002</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the East Downtown Tax Increment Zone Board in the redevelopment of a blighted neighborhood east of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><b><i>Fifth Ward Redevelopment Authority</i></b>  <i>c/o Hawes Hill Calderon LLP</i>  <i>P.O. Box 22167</i>  <i>Houston, Texas 77227</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Fifth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. The City has investment authority for the Zone's assets.</p>
<p><b><i>Fourth Ward Redevelopment Authority</i></b>  <i>410 Pearce St., Suite 355</i>  <i>Houston, Texas 77067</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Fourth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. The City has investment authority for the Zone's assets.</p>
<p><b><i>Greater Greenspoint Redevelopment Authority</i></b>  <i>450 Gears Rd., Suite 200</i>  <i>Houston, Texas 77067</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Greater Greenspoint Tax Increment Reinvestment Zone Board in the redevelopment of the Greenspoint Mall and a blighted adjacent neighborhood in North Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.</p>
<p><b><i>Greater Houston Convention and Visitors Bureau</i></b>  <i>901 Bagby, Suite 1005</i>  <i>Houston, Texas 77002</i></p>	<p>A non-profit organization established in 1963 and funded by both private sector memberships and a portion of the hotel bed tax. Their mission is to improve the economy of Greater Houston by attracting conventions, tourists, film projects and international government officials to the area through sales and marketing efforts. The City has financial accountability because it must approve the members of the board of directors and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.</p>
<p><b><i>Gulfgate Redevelopment Authority</i></b>  <i>c/o Knudson &amp; Associates</i>  <i>8588 Katy Freeway, Suite 441</i>  <i>Houston, Texas 77024</i></p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Gulfgate Tax Increment Reinvestment Zone Board in the redevelopment of the Gulfgate Mall and a blighted adjacent neighborhood southeast of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.</p>

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<b><u>Discretely Reported Component Units</u></b>	<b><u>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</u></b>
<p><b><i>HALAN – Houston Area Library Automated Network Board Houston Central Library 500 McKinney Houston, TX 77002</i></b></p>	<p>Provides review and guidance to the operation, funding and development of the Houston Area Library Automated Network, which provides library services to Houston and surrounding communities. Three members are appointed by City Council, two by the County, and one elected by the smaller libraries. The City does not appoint a voting majority, but is financially accountable for this organization because HALAN is fiscally dependent on the City for revenues, allowing the City the ability to impose its will.</p>
<p><b><i>Houston Arts Alliance 3201 Allen Parkway, Suite 250 Houston, TX 77019</i></b></p>	<p>Non-profit organization that is the officially designated arts agency of the City. The City does not appoint a voting majority, but is financially accountable because the alliance is fiscally dependent on the revenues provided from a portion of hotel occupancy tax, which is levied by the City. This fiscal dependency allows the City to impose its will.</p>
<p><b><i>Houston Business Development, Inc. 5330 Griggs Road Houston, Texas 77021</i></b></p>	<p>A non-profit organization established by the City of Houston in 1986, providing loans and management counseling to small and emerging businesses, and encouraging the expansion of commercial and industrial enterprises. The City has financial accountability because the voting majority of the board members are appointed by City Council and the operations provide financial benefits to the City. Its primary source of funding is through community Development Block Grants and there is the potential that exclusion would result in misleading financial reporting.</p>
<p><b><i>Houston Downtown Park Corporation 2217 Welch Houston, TX 77019</i></b></p>	<p>Local government corporation created by the City in 2004 in accordance with Chapter 431 of the Texas Transportation Corporation Act to aid and act on behalf of the City to accomplish the City's governmental purpose of providing for the acquisition, development, operation, and maintenance of a new public park, open space and related amenities and facilities to provide recreational, educational and tourism opportunities within, and beautification of the Central Business District of the City. Additionally, the corporation maintains an enterprise fund to account for the activities of the Discovery Green Parking Garage. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.</p>
<p><b><i>Houston Parks Board, Inc. 2001 Kirby Dr., Suite 814 Houston, Texas 77019</i></b></p>	<p>Solicits and manages funds raised privately for park acquisitions and improvements on behalf of Houston Parks Board LGC., Inc., which provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. Upon dissolution, all assets revert to the City. There is a potential that exclusion would result in misleading financial reporting.</p>
<p><b><i>Houston Parks Board LGC., Inc. 300 North Post Oak Lane Houston, Texas 77024</i></b></p>	<p>Solicits and manages funds raised privately for park acquisitions and advises the Mayor and City Council on park acquisitions and improvements, which provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. Upon dissolution, all assets revert to the City. There is a potential that exclusion would result in misleading financial reporting.</p>
<p><b><i>Houston Public Library Foundation Houston Central Library 500 McKinney Houston, TX 77002</i></b></p>	<p>Solicits and manages funds raised privately for library improvements. Advises the Mayor and City Council on additions and improvements to the library system that provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. There is a potential that exclusion would result in misleading financial reporting.</p>
<p><b><i>Lamar Terrace Public Improvement District City of Houston Box 1562 Houston, Texas 77251</i></b></p>	<p>Special district organized under state statute to redevelop a blighted neighborhood in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City, allowing the City to impose its will.</p>

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<b>Discretely Reported Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<p><i>Land Assemblage Redevelopment Authority</i>  City of Houston  Box 1562  Houston, Texas 77251</p>	<p>The Land Assemblage Redevelopment Authority (LARA) is a 13-member board appointed by the Mayor, City Council, Harris County and the Houston Independent School District. The LARA Authority is organized for the purpose of aiding, assisting and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the City and in undertaking and completing one or more projects, as may be defined or determined by the City Council of the City. The City has financial accountability because the voting majority of the board members are nominated by City Council, allowing the City to impose its will, and the operations provide financial benefits to the City.</p>
<p><i>Leland Woods Redevelopment Authority</i>  1001 Fannin, Suite 2500  Houston, Texas 77002-6760</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code to assist the City and Tax Increment Reinvestment Zone Number 22 in the redevelopment of a blighted neighborhood. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.</p>
<p><i>Leland Woods Redevelopment Authority II</i>  1001 Fannin, Suite 2500  Houston, Texas 77002-6760</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code to assist the City, Leland Woods Redevelopment Authority and Tax Increment Reinvestment Zone Number 22 in the redevelopment of a blighted neighborhood. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.</p>
<p><i>Main Street Market Square Redevelopment Authority</i>  410 Pierce St., Suite 355  Houston, Texas 77002</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Main St./Market Square Tax Increment Reinvestment Zone Board in the redevelopment of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Memorial City Redevelopment Authority</i>  c/o Knudson &amp; Associates  8588 Katy Freeway, Suite 441  Houston, Texas 77024</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial City Tax Increment Reinvestment Zone Board in the redevelopment of the Memorial City Mall and Town &amp; Country Mall areas west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Memorial-Heights Redevelopment Authority</i>  c/o Vincent &amp; Elkins, LLP  1001 Fannin St., Suite 2500  Houston, Texas 77002</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial Heights Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Midtown Redevelopment Authority</i>  410 Pierce  Houston, Texas 77002</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Midtown Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>

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<u>Discretely Reported Component Units</u>	<u>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</u>
<p><i>Miller Theatre Advisory Board, Inc.</i>  6000 Hermann Park Drive  Houston, Texas 77030-1702</p>	<p>Miller Theatre Advisory Board, Inc. (the Board) is a Texas nonprofit corporation with the primary objective to advance the educational and cultural interests of the people of Houston through a continuing program of artistic, educational, and cultural events at the Miller Outdoor Theatre which is owned by the City of Houston. This is accomplished by various artistic and performing groups providing programs at the Theatre supported by grants awarded by the Board. The City has financial accountability because the directors are appointed by the mayor of the City of Houston and approved by City Council, and its primary source of funding is from Hotel Occupancy taxes which the Board receives from the City through the Houston Arts Alliance.</p>
<p><i>Old Sixth Ward Redevelopment Authority</i>  c/o Land Development, Inc.  P.O. Box 994  Sugar Land, Texas 77487</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Old Sixth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, and the City has investment authority for the Zone's assets.</p>
<p><i>OST/Almeda Corridors Redevelopment Authority</i>  5445 Almeda Suite 545  Houston, Texas 77004</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the OST/Almeda Corridors Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Saint George Place Redevelopment Authority</i>  c/o Hawes Hill Calderon LLP  P.O. Box 22167  Houston, Texas 77227-2167</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the St. George Place Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood in southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council. The operations provide financial benefits to the City and the City has investment authority for the Zone's assets.</p>
<p><i>South Post Oak Redevelopment Authority</i>  c/o Knudson &amp; Associates  8588 Katy Frwy.  Houston, Texas 77024</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the South Post Oak Tax Increment Reinvestment Zone Board in the development of an affordable housing project in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, and the operations provide financial benefits to the City.</p>
<p><i>Southwest Houston Redevelopment Authority</i>  c/o Hawes Hill Calderon LLP  P.O. Box 22167  Houston, Texas 77227-2167</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Southwest Houston Tax Increment Reinvestment Zone Board in the redevelopment of the Sharpstown Mall and adjacent neighborhoods southwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Upper Kirby Redevelopment Authority</i>  3015 Richmond Avenue, Suite 200  Houston, Texas 77098-3114</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Upper Kirby Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>
<p><i>Uptown Development Authority</i>  1980 Post Oak Blvd., Suite 1580  Houston, Texas 77056</p>	<p>Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Uptown Tax Increment Reinvestment Zone Board in the redevelopment of the Galleria Mall area, west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.</p>



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**2. Related Organizations**

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

**C. Basis of Presentation – Government-wide and Fund Financial Statements**

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

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

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

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

**Fund Accounting**

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

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

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

- (a) **Airport System Fund** - is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport.
- (b) **Convention and Entertainment Facilities Fund** - is used to account for the operations of the City's major entertainment facilities, outdoor venues, and parking garages and surface lots. These assets include, but are not limited to, the following: George R. Brown Convention Center, Gus S. Wortham Center, Jesse H. Jones Hall, Houston Center for the Arts, Talento Bilingue de Houston, Jones Plaza, and Theater District parking garages.
- (c) **Combined Utility System Fund** – is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

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3. The City reports the following additional funds:

- (a) **Nonmajor Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.
- (b) **Nonmajor Enterprise Funds – HAWC** – is used to account for the cost to provide treated, potable water to the City of Houston for sale to customers. It was closed May 5, 2010, with remaining amounts transferred to Combined Utility System. **Parking Management** – This fund was created to manage parking facilities within the City of Houston.
- (c) **Internal Service Funds** - are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.
- (d) **Fiduciary Fund Types** - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:
  - (1) **Pension Trust Funds** - are used to account for the assets held in trust for the members and beneficiaries of the City's three defined benefit pension plans.
  - (2) **Agency Funds** - are custodial in nature and do not involve measurement of results of operations.

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

The government-wide financial statements display information about the City of Houston as a whole. Government-wide statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with Statement of Government Accounting Standards No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Program revenues include (1) amounts received from those who purchase, use, or directly benefit from a program, (2) amounts received from parties outside the City of Houston's citizenry that are restricted to one or more specific programs and (3) earnings on investments that are legally restricted for a specific program. Program revenue is divided into three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions.

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

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

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

Proprietary funds and pension trust funds of the primary government and blended Component Units are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. In accordance with GASB Statement No. 20, the City has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City has elected not to follow FASB pronouncements issued subsequent to that date. All proprietary funds define operating revenues and expenses consistent with the precepts of Statement of Government Accounting Standards No. 9 paragraphs 16 – 19 and 31: cash receipts from customers, cash receipts from interfund services provided and used with other funds and other operating cash receipts. All other revenue or expenses recognized is non-operating.

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

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

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

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

**1. Deposits and Investments**

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

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

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances, generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized Certificates of Deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; no-load money market mutual funds registered and regulated by the Securities and Exchange Commission; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms. Investments are carried at fair value based on quoted market prices.

**2. Inventories of Materials and Supplies**

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

**3. Capital Assets**

**a. Governmental Funds - Property, Plant, Equipment, and Infrastructure**

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

Capital assets are capitalized in the funds used to acquire or construct them. Capital acquisition and construction are reflected as expenditures in governmental funds.

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Capital Assets, which include land; building and improvements; improvements other than buildings, machinery and equipment; construction in progress; and infrastructure (e.g. storm drainage, streets and bridges), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. These capital assets include the estimated historical cost of infrastructure acquired prior to fiscal year 1981. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as work in progress projects are constructed.

Buildings and improvements (improvements other than buildings, machinery and equipment and infrastructure) are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Useful Life</b>
Buildings and improvements	Range from 20 to 45 years
Improvements other than buildings	Range from 15 to 30 years
Machinery	Range from 7 to 15 years
Equipment	Range from 3 to 20 years
Storm drainage	50 years
Streets	Range from 6 to 50 years
Bridges	Range from 20 to 50 years

**b. Enterprise Funds – Property, Plant and Equipment**

Property, plant, and equipment owned by the Enterprise Funds are stated at cost or estimated historical cost if original cost is not available. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are substantially complete. At that point, the project is moved to the appropriate asset category and depreciation begins. Depreciation on equipment begins in the year of acquisition. Land and equipment costs are added to the capital asset base in the year of acquisition. Interest costs on funds borrowed to finance the construction of property, plant and equipment of the enterprise funds are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. For fiscal year 2010, the capitalized interest cost for the Airport System Facilities was \$16.5 million, Combined Utility System Fund was \$13.5 million and Convention & Entertainment Facilities Fund was \$ -0- million.

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

<u>Assets</u>	<u>Years</u>
Airport System Facilities	4-50
Convention & Entertainment Facilities	5-45
Combined Utility System Facilities	5-50

Water rights and conveyance system rights of the Combined Utility System Fund are not amortized. Garage rights of the Convention and Entertainment fund are amortized over the life of the related contracts. These rights are reported as capital assets.

In fiscal year 2010, the City of Houston implemented GASB No. 51, “Accounting and Financial Reporting for Intangible Assets”. Prior to this, the City was amortizing Water Rights in the Combined Utility System Enterprise Fund. Under GASB 51, the City determined that these rights now should not be amortized. We have restated beginning net assets by \$277 million to reflect cumulative effect of this change.

**4. Bond Premiums, Discounts and Issuance Costs**

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

**5. Fund Balance**

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

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

**1. Interfund Transactions**

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

- a. Loans are reported as receivables and payables as appropriate.
- b. Charges for services are reported as revenues for the performing fund and expenditures of the requesting fund.
- c. Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.
- d. All other interfund transfers, such as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, are transfers. Transfers are classified as other financing sources or uses (or transfers for proprietary funds) in the Statement of Revenues, Expenditures (or expenses) and Changes in Fund Balances (or net assets). For reporting at the government-wide statements level, the City of Houston eliminates direct interfund charges for services and the balances created within the same fund categories (i.e. governmental vs. business-type). This process ensures neither business-type nor governmental funds report direct internal revenue/expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead the fiduciary interfund activity and balances are treated as transactions with an external party. Interfund activity with discretely presented component units are handled in the same manner as fiduciary interfund activity balances. However, the discretely presented balances are reported on a separate line of the Statement of Net Assets. The Internal Service Fund is essentially a clearing account for income, expenses, assets and liabilities of the City's health benefits and long-term disability programs.

**2. Compensated Absences**

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 90 days of vacation leave (45 days for employees hired after December 31, 1999). Upon termination or retirement, employees are paid for unused vacation leave based on the average rate of pay during the employee's highest paid 60 days of employment. Part-time employees (those working less than 30 hours per week) are not eligible for vacation leave benefits. Firefighters accrue 15 to 22 days of vacation annually, based upon years of service. Police officers participate in a paid time off program that combines sick and vacation leave. Officers enter the program upon completion of their probationary period and then accrue 15 to 40 days annually, based upon years of service.

The majority of full-time civilian employees and firefighters are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The balance of full time civilian employees and firefighters are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement. As noted above, classified police officers are covered by a paid time off plan.

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

To the extent that the City's obligation is attributable to employees' services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, vacation and compensatory time benefits are accrued as liabilities (on a government-wide basis) as employees earn the benefits. On a fund financial statement basis for the governmental funds, only matured liabilities and liabilities expected to be liquidated with current assets are accrued. Sick leave benefits are accrued as a liability as employees earn the benefits, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement. A compensated absence is liquidated in the fund where the employee's salary was paid at termination, with all compensated absences liquidated in the general fund that are associated with employees' salaries paid from governmental funds.

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**G. Estimates**

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

**H. Internal Service Funds**

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

**I. New Accounting Pronouncements**

In June 2007, the GASB issued statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for periods beginning after June 15, 2009. The City has implemented GASB No. 51 in this annual report, and in the Combined Utility System, we have restated beginning net assets by \$277 million to reflect the reversal of accumulated amortization in accordance with the implementation of this new standard.

In June 2008, the GASB issued statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City has implemented GASB No. 53 in this annual report, and in the Combined Utility System, we have recorded \$182 million for Deferred Inflows/Outflows related to the City's swap liability.

In March 2009, the GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". This statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2010, the GASB issued Statement No. 59, "Financial Instruments Omnibus". This statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

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**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

Balances at June 30, 2010 were (in thousands):

Unamortized bond issuance cost	\$	23,409
Section 108 deferred revenue		10,010
Other deferred revenue		148,448
		<u>\$ 181,867</u>
Internal Service Fund total assets	\$	19,030
Internal Service Fund liabilities		(12,748)
Cumulative asset resulting from undercharging the enterprise funds		862
		<u>\$ 7,144</u>
Bonds, notes, and capital lease payable	\$	(3,403,962)
Arbitrage rebate payable		(254)
Accrued interest		(50,901)
Compensated absences not reported at the fund level		(423,371)
Claims and judgments not reported at the fund level		(118,975)
Net pension obligation		(685,710)
Other post employment benefits obligation		(613,591)
		<u>\$ (5,296,764)</u>

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

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

Balances at June 30, 2010 were (in thousands):

Debt issued:	
Public Improvement Bonds	\$ 507,680
Certificates of Obligations	9,000
Pension Obligations	20,100
Commercial paper	390,000
Premium/Discount on bonds	34,166
Deferred loss on refunding	(744)
Capital appreciation bonds accretion	76
	<u>\$ 960,278</u>
Repayments:	
Refunded commercial paper	\$ (503,400)
Refunded bonds	(47,479)
Principal payments	(190,079)
	<u>\$ (740,958)</u>
Amortization of:	
Deferred gain	\$ 2,564
Premium	(9,297)
Net adjustment	<u>\$ 212,587</u>



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

Property taxes earned but not available	\$ 33,495
Ambulance fees earned but not available	1,393
Fines and forfeits earned but not available	8,855
Other (primarily assessments) earned but not available	<u>104,705</u>
Total revenue not reported at fund level	<u>\$ 148,448</u>
Property taxes for prior periods	\$ (30,582)
Ambulance fees for prior periods	(2,091)
Fines and forfeits for prior periods	(7,836)
Other (primarily assessments) for prior periods	<u>(49,465)</u>
Total revenue for prior period transactions	<u>\$ (89,974)</u>
Interest on long-term debt	\$ (6,589)
Municipal Employees pension	(23,858)
Police Officers' pension	(55,327)
Firefighters' pension	13,782
Claims and judgments	4,426
Debt issuance costs	3,253
Amortization of debt issuance costs	(1,511)
Compensated absences	(14,988)
Other liabilities	1,671
Other post employment benefits	(187,522)
Decrease in other receivables	<u>(4,049)</u>
Total differences in accrued expenses	<u>\$ (270,712)</u>

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**NOTE 3: DEPOSITS AND INVESTMENTS**

**A. Deposits**

At June 30, 2010 the carrying amount of the City's deposits was \$3,140,581. The City's bank balance is the sum of three accounts which total \$36,858,133. The three accounts that comprise this balance are described by the following:

<u>Accounts</u>	<u>Ledger</u>	<u>Collected</u>
Concentration	\$ 20,572,225	\$ 15,000,100
Section 108	293,012	293,012
JPM Money Market	15,992,896	15,992,896
Total	\$ 36,858,133	\$ 31,286,008
Mkt Value Collateral		\$ 30,597,021

The first account is a demand deposit account with JP Morgan Chase bank ("Chase") that as of June 30, 2010 had a ledger balance of \$20,572,225 and a collected balance of \$15,000,100. The difference between the ledger and collected balance represents checks deposited in this bank account but uncollected by the bank. The City has a Depository Pledge Agreement whereby Chase pledges collateral to the City to cover balances. As of June 30, 2010, the collateral had a market value of \$30,597,021. According to terms of the Agreement the City is granted a security interest in the pledge securities.

The second account is a demand deposit account with Chase for the City's Housing and Urban Development Section 108 account, which at June 30, 2010 had a collected and ledger balance as of \$293,012. This balance was collateralized by the Depository Pledge Agreement described above.

The third account is an AAA-rated, SEC registered money market fund. The balance in the money market fund as of June 30, 2010 was \$15,992,896. As this is not a bank account, collateral is not required to cover the balance. There is no custodial risk associated with this money market fund.

**B. Investments and Risk Disclosures**

The following describes the investment positions of the City's operating funds as of June 30, 2010. The City held \$2.4 billion in high grade, fixed income investments in three separate investment pools, each serving a specific purpose as described below. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

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These funds are managed internally by City personnel. The investments listed below do not include the City's three pension funds, which are described elsewhere in this report.

**1. General Investment Pool Fund 9900**

The General Investment Pool consists of all working capital, construction, and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems, as well as the general fund, are commingled in this pool in order to gain operational efficiency. Approximately 99% of the City's total investable funds are contained in this portfolio.

<b>City of Houston Investments as of June 30, 2010</b>	<b>Credit Quality Ratings(1)(2)</b>	<b>Fair Value</b>	<b>WAM* ( yrs )</b>
U.S. Treasury Notes	N/A	\$ 328,615,282	0.746
Housing and Urban Development Notes (3)	N/A	49,582,022	1.632
Agency Notes (4)	AAA	1,117,992,645	1.831
Agency Notes (4) (5)	Not rated	270,585,010	0.261
Collateralized Mortgage Obligations (4) (5)	Not rated	4,036,162	0.642
Mortgaged Backed Securities (4) (5)	Not rated	222,477,858	2.654
Money Market Funds	AAA Short Term	61,240,590	0.110
Certificates of Deposit	FDIC insured	1,972,665	0.284
Commercial Paper Notes (6)	A-1+ Short Term	169,166,494	0.079
Municipal Bonds	AAA Long Term	48,142,650	1.563
Municipal Bonds	A-1+ Short Term	7,037,271	0.280
Municipal Bonds	AA Long Term	60,314,781	1.856
Municipal Bonds	A Long Term	477,477	0.637
<b>Total Investments</b>		<b><u>\$ 2,341,640,907</u></b>	<b>1.385</b>

\* Weighted Average Maturity (WAM) is computed using average life of mortgage backed securities and effective maturity of callable securities.

(1) Standard and Poor's (S&P) Rating Services has assigned an AAAf credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAAf signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Standard and Poor's ("S&P") ratings, or if an S&P credit rating is not available, the equivalent credit rating of Moody's or Fitch.

(3) Housing and Urban Development Notes are guaranteed by the U.S. government.

(4) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Corporation ("Fannie Mae"), and Federal Agricultural Corporation ("Farmer Mac").

(5) These securities were issued by the Federal Home Loan Bank, Freddie Mac, and Fannie Mae. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

(6) At June 30, 2010, the City held some of its own commercial paper notes ("the Notes"). The Notes were purchased in recognition of IRS Notice 2008-88 and 2010-7 which permits issuers to purchase and hold their own debt until December 31, 2010 without causing an extinguishment of such debt for federal income tax purposes. The Notes were purchased as an investment of funds on deposit in City's General Pool, in compliance with the Texas Public Funds Investment Act and the City's current investment policy. Such purchase was not intended to extinguish the debt evidenced by the Notes.

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**Reverse Repurchase Agreements:**

From time to time the City participates in reverse repurchase agreements whereby it enters into agreements to sell certain securities and repurchase them at a later date. The proceeds of the sale are then invested at a positive spread in high grade money market funds or commercial paper notes with the same maturity date as the agreement. The purpose of the agreements is to earn incremental income. The City had no reverse repurchase agreements outstanding at June 30, 2010.

**Risk Disclosures:**

*Interest Rate Risk.* In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar weighted average maturity to 2.5 years maximum. As of June 30, 2010, this investment portfolio's dollar-weighted average maturity was 1.385 years. Modified duration was 1.25 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.25 years would experience approximately a 1.25% change in market price for every 100 basis point change in yield.

*Credit Risk –Investments.* The US Treasury Notes and Housing and Urban Development Notes are direct obligations of the United States government. The Agency Notes, Collateralized Mortgage Obligations, and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The money market mutual funds were rated AAA. Long term municipal securities were rated at least A. Municipal securities considered short-term securities had the highest short-term rating of A-1+.

*Credit Risk - Securities Lending:* Under the securities lending program, the City receives 102% of market value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2010 there were no securities lending agreements outstanding.

*Custodial Credit Risk.* The custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2010, none of the City's investments in the General Investment Fund 9900 were subject to custodial credit risk.

*Foreign Currency Risk.* Foreign currency risk is the risk that investments will change value due to changes in exchanges rates between time of purchase and reporting or sale. The City's general pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

**2. Tax Exempt Pool 9901**

The Tax Exempt Pool consists of those funds which are subject to yield restrictions and arbitrage regulation under the 1986 Tax Reform Act. All these investments were held in a tax-exempt money market fund.

<b>City of Houston Investments as of June 30, 2010</b>	<b>Credit Quality Ratings</b>	<b>Fair Value</b>	<b>WAM</b>
Fidelity Tax-Exempt Money Market Mutual Fund	SEC 2a-7 fund	\$ 5,504,497	<90 days
Municipal Bonds	SP-1+Short Term	3,924,979	31 days
Municipal Bonds	AA Long Term	<u>3,413,595</u>	358 days
		<u>\$ 12,843,071</u>	113 days

**Risk Disclosures:**

*Interest Rate Risk.* In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this pool's dollar-weighted average maturity to 1.5 years. As of June 30, 2010, the pools dollar-weighted average maturity was 113 days. Modified duration was 0.31 years.

*Credit Risk.* The City's investment policy limits investments in the Tax-Exempt Pool to high quality securities with a maturity of less than three years and a minimum rating of A if the yield is reasonably higher than that of a tax-exempt money market mutual fund. Otherwise, funds are invested in one or more tax-exempt money market mutual funds that are SEC registered and regulated under rule 2a-7. Rule 2a-7 requires that the fund have a weighted average maturity of less than 90 days to maturity, that individual securities cannot be more than 397 days to maturity, and that securities must have a rating by nationally recognized rating agencies in one of the two highest short-term rating categories.

*Custodial Credit Risk.* As of June 30, 2010, none of the City's investments in this pool were subject to custodial credit risk.

*Foreign Currency Risk.* The City's investments in this pool are all US dollar denominated and not subject to foreign currency risk.

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**3. Housing Department Section 108 Pool Fund 9902**

The Housing Department Pool was created to comply with rules of the US Department of Housing and Urban Development (“HUD”), which requires that funds provided by HUD must be held in a separate custodial account for HUD’s benefit. The primary goal of this fund is to meet the cash flow and investment needs of the City’s Housing and Community Development HUD program.

<b>City of Houston</b>	<b>Credit Quality</b>	<b>Fair</b>	
<b>Investments as of June 30, 2010</b>	<b>Ratings</b>	<b>Value</b>	<b>WAM</b>
U.S. Treasury Bills	NA	\$4,998,881	51-days

**Risk Disclosures:**

*Interest Rate Risk.* In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City’s investment policy limits this investment portfolio’s dollar-weighted average stated maturity to six months maximum. As of June 30, 2010, this investment portfolio’s dollar-weighted average stated maturity is 51 days. Modified duration was 0.14 years.

*Credit Risk.* The HUD pool consists only of U.S. Treasury Bills with maturities less than 6 months. HUD requires that investment of these funds must be in direct obligations of the United States Government.

*Custodial Credit Risk.* As of June 30, 2010 none of the City’s investments in this pool were subject to custodial credit risk.

*Foreign Currency Risk.* The City’s investments in this pool are all US dollar denominated and not subject to foreign currency risk.

**4. Miscellaneous Money Market Accounts**

The City maintains several separate money market accounts outside the pools as described below:

<b>City of Houston</b>	<b>Credit Quality</b>	<b>Fair</b>	
<b>Investments as of June 30, 2010</b>	<b>Ratings</b>	<b>Value</b>	<b>WAM</b>
JP Morgan US Government Money Market Fund: Airport System Special Facilities Revenue Bonds Series 1997A Reserve Fund.	AAA	\$ 6,590,823	< 90 days
JP Morgan US Government Money Market Fund: Houston Area Water Corporation transferred to City May 5, 2010	AAA	1,622,488	< 90 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service.	AAA	319,162	< 90 days
First American US Treasury Money Market Fund: Balances held for commercial paper debt service.	AAA	44,880	< 90 days
<b>Total Miscellaneous Money Market Funds</b>		<b><u>\$ 8,577,353</u></b>	< 90 days

**Risk Disclosures:**

*Interest Rate Risk.* These money market funds maintain an average maturity of less than 90 days and seek to maintain a stable net asset value of \$1.00. These funds are redeemable on a same day notice.

*Credit Risk.* These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

*Custodial Credit Risk.* As of June 30, 2010, none of the City’s investments in this pool were subject to custodial credit risk.

*Foreign Currency Risk.* The City’s investments in this pool are all US dollar denominated and not subject to foreign currency risk.

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**5. Houston Foundation**

The Houston Foundation consists of two trusts. The Hill Trust is reported as an Other Non-Major Special Revenue Fund; its investments are laid out below. The Hill Trust was established by will in the early 1900's as a general purpose charity trust. The trust is administered by an outside trustee. The City's Administration and Regulatory Affairs Department provides administrative support to the foundation and its board.

<b>City of Houston Investments as of June 30, 2010</b>	<b>Credit Quality Ratings</b>	<b>Fair Value</b>	<b>WAM ( yrs )</b>
Cash and Equivalents	not rated	\$ 40,477	n/a
Fixed Income	See below	1,480,683	2.23
Equities	n/a	1,144,982	n/a
Tangible Assets	n/a	158,757	n/a
<b>Total Assets</b>		<b><u>\$ 2,824,899</u></b>	

**Risk Disclosures:**

*Interest Rate Risk.* The cash and fixed income portions of this portfolio are invested in money market mutual funds. Approximately 73% of the fixed portfolio is allocated to corporate bonds with maturity less than 6 years, 14% is allocated to U.S. Agency securities with maturities less than one year, and 13% is allocated to bond mutual funds with maturities less than eight years. The weighted average maturity for the fixed income portfolio is 2.23 years, and the weighted average duration is 2.02 years.

*Credit Risk.* The allocation of assets among various asset classes are set by the board. The Standard and Poor's rating for the fixed income portfolio are as follows: 22% is rated AAA, 36% is rated AA, 28% is rated A, and 14% consists of unrated mutual funds. The equities portion of this portfolio is invested in common stocks and Columbia's mutual funds.

*Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2010 all of the foundation's holdings in the above noted mutual funds, corporate bonds, and common stocks were subject to custodial credit risk.

*Foreign Currency Risk.* Foreign currency risk is the risk that investments will change value due to changes in exchange rates between times of purchase, reporting or sale. The equity investments of the Houston Foundation are subject to this risk to the extent that the corporations held have not fully hedged their foreign currency dealings.

**6. Investments – Municipal Employees Pension System (the “System”)**

Portions of the System's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in commingled funds, limited partnerships, real estate trusts, and loans and mortgages are investments that are evidenced by contracts rather than securities.

The fair values of the System's investments at June 30, 2010, are presented by type, as follows:

Short-term investment funds	\$ 23,297,787
Government securities	1,591,094
Corporate bonds	137,936,732
Capital stocks	577,373,117
Commingled funds	555,114,272
Real assets	193,693,353
Alternative investments	<u>335,926,903</u>
	<b>\$ <u>1,824,933,258</u></b>

The System's Board, in accordance with the power and authority conferred under the Texas Statutes, employed State Street Bank and Trust Company (Custodian) as custodian of the assets of the System, and in said capacity, the Custodian is a fiduciary of the System's assets with respect to its discretionary duties including safekeeping the System's assets.

The Custodian has established and maintains a custodial account to hold, or direct its agents to hold, for the account of the System all assets that the Board shall from time to time deposit with the Custodian. All rights, title and interest in and to the System's assets shall at all times be vested in the System's Board.

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In holding all System assets, the Custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the Custodian shall hold, manage and administer the System's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the System.

The Board shall manage the investment program of the System in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth the factors involved in the management of investment assets for the System and is made part of every investment management agreement.

*Custodial credit risk.* For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. At June 30, 2010, the System's investments that were not subject to custodial credit risk were the investments in U.S. government securities and corporate bonds as they are registered in the name of the System and held in possession of the Custodian.

*Concentration of credit risk.* The allocation of assets among various asset classes is set by the Board. For major asset classes (e.g., U.S. equity, international equity, fixed income, real assets, and alternative investments), the System will further diversify by employing managers with demonstrated skills in complementary areas of expertise.

The managers retained will utilize varied investment approaches, but, when combined will exhibit characteristics that are similar, but not identical, to the asset class proxy utilized in the strategic asset allocation plan. The Investment Policy of the System provides that no investment manager shall have more than 15% (at market value) of the System's assets in one investment style offered by the firm, with the exception of passive management.

Representative guidelines by type of investment are as follows:

*U.S. equity managers*

1. A manager's portfolio shall contain a minimum of twenty-five issues.
2. No more than 5% of the manager's portfolio at market shall be invested in American Depository Receipts (ADRS).
3. No individual holding in a manager's portfolio may constitute more than 5% of the outstanding shares of an issuer.
4. No individual holding may constitute more than 5% of a manager's portfolio at cost or 10% at market.
5. Short sales, purchases on margin, non-negotiable or otherwise restricted securities are prohibited, other than where expressly permitted.
6. While there are no restrictions on cash, a manager must notify the System if the cash position exceeds 10%.

*International equity managers*

1. Not more than 5% at cost and 10% at market value of a manager's portfolio shall be invested in the securities of any one issuer.
2. Not more than 30% of the assets of a manager's portfolio (at market value) shall be invested in any one country with the exception of Japan.
3. While there are no restrictions on cash, a manager must notify the System if the cash position exceeds 10%.
4. Currency forwards and futures will be limited as follows:
  - a. Limits on net forward and future sales of currencies will be addressed in each manager's respective Guidelines and Objectives,
  - b. Forward and future exchange contracts of any currencies, other than Yen, Sterling and Euro shall be limited to the manager's underlying equity position in the local market,
  - c. Foreign exchange contracts with a maturity exceeding 12 months are prohibited, and
  - d. Currency options may be entered into in lieu of or in conjunction with forward sales of currencies. The same effective limitations specified in (a) through (c) above will apply to currency options.

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*Fixed income managers*

1. No more than 10% of a manager's portfolio at market shall be invested in the securities of any single issuer, with the exception of the U.S. government and its agencies.
2. No individual holding in a manager's portfolio shall constitute more than 10% of the market value of an issue.

*Global opportunistic fixed income/high yield managers*

1. No more than 5% at cost and 10% at market value of a manager's portfolio shall be invested in the securities of any single issuer, with the exception of the U.S. government and its agencies.

There is no security issued by a single issuer that is being held with market value over 5% of the System's plan net assets as of June 30, 2010.

*Interest rate risk.* The System invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. This risk is managed within the portfolios using the effective duration or option-adjusted methodology. The System's investment policies require that the portfolio shall maintain a duration within +/- 20% of the Lehman Aggregate Bond index; and maintain a credit quality weighted average arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a 100-basis point change in interest rates. The duration of the System's debt securities are managed by the active managers.

At June 30, 2010, the following table shows the System's investments by type, amount and the effective duration rate calculated using the software Wilshire Axiom.

	<u>Effective Duration</u>	<u>Domestic</u>	<u>International</u>	<u>Fair Value</u>
Convertible bonds	2.42	\$ 12,849,422	\$ 105,875	\$ 12,955,297
Corporate bonds	4.77	120,633,853		120,633,853
Corporate bonds (International)	12.43		2,130,914	2,130,914
Government issues (International)	6.59		1,591,094	1,591,094
Other	<u>2.55</u>	<u>2,151,830</u>	<u>64,838</u>	<u>2,216,668</u>
	4.66	\$ <u>135,635,105</u>	\$ <u>3,892,721</u>	\$ <u>139,527,826</u>

*Credit risk:* The quality ratings of investments in fixed income securities are set forth in the Investment Policy as follows:

1. All issues purchased must be of investment grade quality Baa (Moody's) or BBB (S&P) unless expressly authorized by the Board, in which case a minimum B rating shall apply, with a maximum limit of non-investment grade credits of 20% at market.
2. For global opportunistic fixed income/high yield securities, more than 50% of a manager's portfolio at market shall be invested in non-investment grade fixed income securities, i.e. those with ratings of BA1 (Moody's), BB+ (Standard & Poor's), or lower, or unrated bonds, including but not limited to corporate bonds, convertible bonds, and preferred stocks.



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The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2010 are as follows:

<u>Quality Rating</u>	<u>Convertible Bonds</u>	<u>Corporate Bonds</u>	<u>Government Issues (International)</u>	<u>Other</u>	<u>Other Asset Backed</u>	<u>Grand Total Fair Value</u>	<u>Percentage of Holdings</u>
AAA	\$						0.00%
AA							0.00%
AA+							0.00%
AA-							0.00%
A		99,752	1,576,092			1,675,844	0.09%
A-		538,353				538,353	0.03%
A+							0.00%
BBB		968,655				968,655	0.05%
BBB-		1,039,607			48,519	1,088,126	0.06%
BBB+		3,353,730				3,353,730	0.18%
BB	180,312	6,838,242			504,942	7,523,496	0.41%
BB+	996,712	4,377,348	15,002		184,254	5,573,316	0.31%
BB-	885,987	7,941,661			115,334	8,942,982	0.49%
B	4,020,450	20,457,784				24,478,234	1.34%
B+	686,825	7,483,297			131,106	8,301,228	0.45%
B-	1,056,813	24,978,582				26,035,395	1.43%
Below C	1,380,790	35,712,161				37,092,951	2.03%
NA	<u>3,747,408</u>	<u>8,975,595</u>		<u>636,088</u>	<u>596,425</u>	<u>13,955,516</u>	<u>0.76%</u>
Subtotal	\$ <u>12,955,297</u>	<u>122,764,767</u>	<u>1,591,094</u>	<u>636,088</u>	<u>1,580,580</u>	<u>139,527,826</u>	<u>7.63%</u>
Total credit risk debt securities						139,527,826	7.63%
Other investments						<u>1,685,405,432</u>	<u>92.37%</u>
Total investments						<u>1,824,933,258</u>	<u>100.00%</u>

*Foreign currency risk.* International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System's Investment Policy.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund, establishes investments in international equities.

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The System has an indirect exposure to foreign currency fluctuation as of June 30, 2010 as follows:

	<u>Fair Value</u>	<u>Percentage of Holdings</u>
Australian Dollar	\$ 3,075,597	2.0%
Brazilian Real	5,096	0.0%
Canadian Dollar	7,606,263	5.1%
Danish Krone	1,322,792	0.9%
Euro Currency	45,126,584	30.1%
Hong Kong Dollar	5,232,354	3.5%
Hungarian Forint	221	0.0%
Indonesian Rupiah	1,714,382	1.1%
Japanese Yen	36,826,027	24.5%
Malaysian Ringgit	940,757	0.6%
Mexican Peso	2,269,974	1.5%
New Zealand Dollar	300,690	0.2%
Norwegian Krone	885,323	0.6%
Pound Sterling	26,721,328	17.8%
Singapore Dollar	1,734,270	1.2%
South Korean Won	2,050,946	1.4%
Swedish Krona	3,691,688	2.5%
Swiss Franc	<u>10,644,879</u>	<u>7.1%</u>
Total	\$ <u>150,149,171</u>	<u>100.0%</u>

**7. Investments – Houston Firefighters’ Relief and Retirement (HFRRF) Fund**

Statutes of the State of Texas authorize the Fund to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed “prudent” by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Fund; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Fund given prevailing capital market conditions. While the Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

The Board has employed BNY Mellon (Custodian) as Custodian of the assets of the Fund, and in said capacity, the Custodian shall be a fiduciary of the Fund’s assets with respect to its discretionary duties including safekeeping the Fund’s assets. The Custodian shall establish and maintain a custodial account to hold, or direct its agents to hold, for the account of the Fund all assets that the Board shall from time to time deposit with the Custodian. All right, title and interest in and to the Fund’s assets shall at all times be vested with the Fund’s Board.

In holding all Fund assets, the Custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the Custodian shall hold, manage and administer the Fund’s assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the Fund.

The Board shall manage the investment program of the Fund in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted an Investment Policy Statement (Investment Policy) to set forth the factors involved in the management of investment assets for the Fund. The Board has established an Investment Committee to act on all matters related to investments.

The fair values of the Fund’s investments as of June 30, 2010 by type are as follows:

Short-term investment funds	\$ 69,376,467
Fixed Income	946,818,208
Common equity	926,650,720
Preferred equity	5,564,791
Alternative investments	250,345,905
Private equity	336,251,714
Real Estate	<u>150,636,217</u>
Total investments	\$ <u>2,685,644,022</u>

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Portions of the Fund's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in partnerships and real estate are investments that are evidenced by contracts rather than securities. The fair value shown here may differ from reported net assets due to payables, receivables, and trades pending settlement.

*Custodial credit risk.* For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. At June 30, 2010, the Fund's security investments that were not subject to custodial credit risk were the investments not registered on an exchange.

*Concentration of credit risk.* The allocation of assets among various asset classes is set by the Board with the objective of optimizing the investment return of the Fund within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, private equity and real estate), the Fund will further diversify by employing investment managers who implement the strategies selected by the Investment Committee.

Significant risk management asset allocation guidelines are as follows:

*Public market investments*

1. Specific guidelines will be developed cooperatively by the Fund's investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Investment Committee, and the investment manager.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:
  - a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.
  - b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Investment Committee.
  - c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Investment Committee.
  - d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Investment Committee.
  - e. Managers shall maintain cash levels consistent with their style as presented to the Investment Committee at the time of selection. Any deviation shall be allowed only after notifying the Chief Investment Officer and should be related to unusual market conditions. The maximum cash level to be held by each manager will be addressed in the Investment Management Agreement or other binding agreement as is appropriate for the investment.
3. The Investment Committee with the assistance from the Fund staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternate and Real Estate investment manager retention is governed in most cases by Limited Partnership agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Investment Committee with assistance from the fund staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

As of June 30, 2010, the Fund investment portfolio had no single holdings in excess of 5% of Fund net assets.

*Interest rate risk.* The Fund invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Fund's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment come

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due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

At June 30, 2010, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	Weighted Average <u>Maturity</u>	<u>Fair Value</u>
Asset Backed Securities	12.54	\$ 52,990,497
Consumer Discretionary	0.54	1,439,996
Corporate Debt	17.09	599,948,051
Energy	16.75	2,930,282
Financials	18.82	1,654,946
FHLM/FNMA	1.83	4,245,016
U.S. Government Issues	15.32	26,574,254
Healthcare	5.21	10,103,356
Industrials	19.62	1,749,922
Information Technology	19.63	7,825,614
Non-U.S. Corporate	4.30	57,076,773
Non-U.S. Government Issues	1.53	28,760,322
Telecommunication Services	1.96	47,188
U.S. Convertibles	11.11	14,876,695
U.S. Fixed Income Funds	0.00	1,823,878
U.S. Private Placements	14.93	110,037,633
U.S. Taxable Muni Bonds	27.88	24,207,820
Utilities	17.41	<u>525,965</u>
Total fixed income securities		\$ <u>946,818,208</u>

*Credit risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract.

The Fund's exposure to investment credit risk in fixed income securities as of June 30, 2010 is as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Holdings</u>
AGY	\$ 4,245,016	0.16 %
A1	28,341,985	1.05 %
A2	130,570,337	4.83 %
A3	157,879,079	5.84 %
AA1	4,763,017	0.18 %
AA2	24,786,619	0.92 %
AA3	51,280,423	1.90 %
AAA	100,214,705	3.71 %
B1	12,027,958	0.45 %
B2	25,723,744	0.95 %
B3	15,012,753	0.56 %
BA1	18,518,749	0.69 %
BA2	25,004,832	0.93 %
BA3	33,601,157	1.24 %
BAA1	62,265,404	2.30 %
BAA2	69,262,056	2.56 %
BAA3	107,421,620	3.98 %
CA	1,718,942	0.06 %
CAA1	13,496,643	0.50 %
CAA2	13,911,439	0.51 %
CAA3	6,802,009	0.25 %
Not rated	<u>13,395,467</u>	<u>0.50</u> %
Total credit risk debt securities*	\$ <u>920,243,954</u>	<u>34.07</u> %

\*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, have not been included in this disclosure.

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*Foreign currency risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation (depreciation) in fair value of investments. The Fund's policy allows external investment managers to decide what action to take regarding their respective portfolio's foreign currency exposures subject to compliance with its respective Investment Management Services Contract and the Fund's Investment Policy Statement.

The Fund's exposure to foreign currency fluctuation as of June as of June 30, 2010 is as follows:

	<u>Fair Value</u>	<u>Percentage of Holdings</u>
Japanese Yen	\$ 74,781,392	2.77 %
Euro Currency Unite	73,519,930	2.72 %
British Pound Sterling	55,276,392	2.05 %
Swiss Franc	46,559,077	1.72 %
Canadian Dollar	35,840,911	1.33 %
Hong Kong Dollar	28,841,188	1.07 %
Singapore Dollar	16,501,907	0.61 %
Indonesian Rupian	15,678,794	0.58 %
South Korean Won	14,961,672	0.55 %
Brazil Real	14,466,552	0.54 %
Mexican New Peso	13,309,502	0.49 %
Australian Dollar	12,034,059	0.45 %
Norwegian Krone	10,470,878	0.39 %
New Zealand Dollar	9,421,209	0.35 %
Swedish Krona	6,462,477	0.24 %
Thailand Baht	3,549,873	0.13 %
Danish Krone	3,077,284	0.11 %
New Taiwan Dollar	2,383,301	0.09 %
S. African Comm Rand	2,369,822	0.09 %
New Turkish Lira	2,054,677	0.08 %
Malaysian Ringgit	514,426	0.02 %
Phillppine Peso	365,429	0.01 %
Chinese Yan Renminbi	<u>48</u>	<u>0.00 %</u>
Total securities subject to foreign currency risk	\$ <u>442,440,800</u>	<u>16.39 %</u>

## 8. Investments – Houston Police Officers' Pension

### Summary of Significant Accounting Policies

*Investments.* Statutes of the State of Texas authorize the System to invest surplus funds in a manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. These statues stipulate that the governing body of the System is responsible for the management and administration of the funds of the System and shall determine the procedure it finds most efficient and beneficial for the management of the reserve fund of the System. The governing body may directly manage the investments of the System or may choose and contract for professional investment management services. Investments are reported at fair value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

*Administrative Costs.* All administrative costs of the System are paid from the System's assets.

*Federal Income Tax.* A favorable determination that the System is qualified and exempt from Federal income taxes was received May 26, 2007. The Board believes that the System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

*Use of Estimates.* The preparation of the System's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make significant estimates and assumptions that affect the reported amounts and net plan assets at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in the System's net assets during the reporting period and, when applicable, disclosures of the contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The System's investments have been categorized to address deposit and investment risks related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

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*Custodial Credit Risk.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to them. The System considers only demand deposits as cash. The System does not have a deposit policy regarding custodial credit risk. As of June 30, 2010, the System had a balance of \$559 thousand respectively, on deposit at a financial institution. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to \$250 thousand at this financial institution. As of June 30, 2010, \$309 thousand of the System's bank balance of \$559 thousand was exposed to custodial credit risk. In addition, at June 30, 2010, the System had approximately \$3,850 thousand on deposit with other financial institutions, which is subject to custodial credit risk, as it is not covered by depository insurance and is uncollateralized.

*Credit Risk.* Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2010, the System's fixed income assets that are not government guaranteed represented 74.1% of the System's fixed income plus short term investments portfolio. The tables below summarize the System's fixed income portfolio exposure levels and credit qualities.

**Average Credit Quality and Exposure Levels of Non-U.S. Government Guaranteed Securities (\$000's)**

Fixed Income Security Type	Fair Value (\$000's)	Percent of Total	Weighted Average Credit Quality
Corporate Bonds	\$ 136,621	14.2%	BB
International Government Bonds	98,227	10.2%	AA
Mutual Bond Funds	232,804	24.2%	Not Rated
Bank Loans	4,556	0.5%	B
Short Term Investment Funds	240,209	25.0%	Not Rated
<b>Total</b>	<b>\$ 712,417</b>	<b>74.1%</b>	

**Ratings Dispersion Detail  
(000's)**

Credit Rating Level	Corporate Bonds	Government Bonds	Mutual Bond Funds	Bank Loans	Short Term Investment Funds
AAA	\$ -	\$ 30,446	\$ -	\$ -	-
AA	-	54,237	-	-	-
A	698	12,261	-	-	-
BBB	5,005	-	-	-	-
BB	48,420	-	-	1,330	-
B	64,477	-	-	1,984	-
CCC	14,545	-	-	-	-
CC	128	-	-	-	-
D	8	-	-	466	-
Not Rated	3,340	1,283	232,804	776	240,209
<b>Total</b>	<b>\$ 136,621</b>	<b>\$ 98,227</b>	<b>\$ 232,804</b>	<b>\$ 4,556</b>	<b>\$ 240,209</b>

The System's investment policy allows Investment managers full discretion in adopting investment strategies to deal with these risks. Unless otherwise provided in the individual investment manager agreement, the average quality rating of each individual fixed income portfolio on a weighted value basis shall be A-rated or higher, and no issue should have a rating below investment grade (Baa or higher). Certain managers, such as high yield managers, may be exempted from these requirements as provided for in their contracts.

Credit risk for derivative instruments held by the System results from counterparty risk, essentially that the counterparty will be unable to fulfill its obligations, assumed by the System. Information regarding the System's credit risk related to derivatives is found under the derivatives disclosures.

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Policies regarding credit risk pertaining to credit risk associated with the System's securities lending program are found under the securities lending disclosures.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributable to the magnitude of the System's investment in a single issue. The System's investment policy for each specific portfolio limits investments in any one single domestic equity issue to 15% of each portfolio at market value and for any one single international equity issue to 5% of the System's investments. For fixed income investments, the System's policy limits, by each specific portfolio, investment in any one single fixed income security to 10% of each portfolio at market value. As of June 30, 2010, the System did not have any investments in any one organization which represented greater than 5% of plan net assets.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the System's financial instruments. This risk is managed within the portfolio using the modified duration methodology. It is widely used in the management of fixed income portfolios and estimates the sensitivity of a bond's price to interest rate changes. The System does not have an investment policy specifically regarding interest rate risk. Investment managers have full discretion in adopting investment strategies to deal with these risks, and all of the System's fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken. The reporting of modified duration found in the tables below and on the next page quantifies the interest rate risk of the System's fixed income investments. Interest rate risks associated with derivative instruments are found in the derivatives disclosures of these notes.

**Modified Duration by Security Type**

Security Type	Market Value (\$000's)	Percent of Total	Weighted Average Modified Duration (years)
US Treasuries	\$ 248,853	25.9%	2.8
Corporate Bonds	136,621	14.2%	4.5
International Government Bonds	98,227	10.2%	7.3
Mutual Bond Funds	232,804	24.2%	4.7
Bank Loans	4,556	0.5%	3.7
Short Term Investment Funds	240,209	25.0%	0.1
Total	<u>\$ 961,270</u>	<u>100.0%</u>	<u>4.7</u>

**Modified Duration Analysis by Security Type**

	Market Value (\$000's)	Average Modified Duration	Contribution Modified Duration
<b>Corporate Bonds</b>			
Less than 1 year to maturity	\$ 36	0.0	0.0
1 to 10 years maturities	131,843	4.3	4.2
10 to 20 years maturities	3,580	8.6	0.2
Greater than 20 years maturities	1,162	11.4	0.1
Total	<u>\$ 136,621</u>		<u>4.5</u>
<b>International Government Bonds</b>			
1 to 10 years maturities	\$ 68,617	4.7	3.3
10 to 20 years maturities	14,426	11.2	1.6
Greater than 20 years maturities	15,184	15.4	2.4
Total	<u>\$ 98,227</u>		<u>7.3</u>
<b>Bank Loans</b>			
1 to 10 years maturities	\$ 4,556	3.7	3.7
Total	<u>\$ 4,556</u>		<u>3.7</u>

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*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The books and records of the System are maintained in US dollars. Foreign currencies and non-US dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation in fair value of investments. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the System and the amount actually received. The System's investment policy requires that no foreign equity securities are permitted unless they are U.S. dollar denominated ADR's trading on the U.S. exchanges. International and global managers shall have the permission to use currency forward and futures contracts to hedge currency against the U.S. dollar. Currency forwards and futures used for the purpose of hedging currency shall be subject to the following guidelines: 1) net forward and futures sales of any currency may not exceed total market value of the assets denominated in that currency. This limitation does not apply to global fixed income managers and currency overlay managers if provided for in their contracts, 2) foreign currency exchange contracts with a maturity exceeding 12 months are not permitted, 3) currency options may be entered into in lieu of or in conjunction with forwards sales of currencies with the same limitations as currency forwards and futures. Cross hedging, the selling of one foreign currency for another foreign currency, which may or may not be the base currency of the portfolio, is permitted.

The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2010, is shown in the table below:

**Foreign Currency Exposure by Asset Class**  
(\$000's)

Currency	Short Term		Fixed Income	Alternative Investments	Options on	Total
	Investments	Equities			Foreign Currencies	
Australian dollar	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 20
British pound sterling	43	39,775	8,088	-	(8,094)	39,812
Canadian dollar	16	1,370	2,010	-	(1,956)	1,440
Danish krone	-	-	1,255	-	(1,194)	61
Euro	4,108	105,341	42,035	20,887	(44,241)	128,130
Hong Kong dollar	-	3,112	-	-	-	3,112
Japanese yen	34	69,713	45,222	-	(45,134)	69,835
New Zealand dollar	-	779	-	-	-	779
Norwegian krone	-	1,717	-	-	-	1,717
Singapore dollar	-	1,495	-	-	-	1,495
South Korean won	-	3,688	-	-	(15)	3,673
Swedish krona	4	4,442	650	-	(642)	4,454
Swiss franc	427	18,209	-	-	-	18,636
<b>Total</b>	<b>\$ 4,652</b>	<b>\$ 249,641</b>	<b>\$ 99,260</b>	<b>\$ 20,887</b>	<b>\$ (101,276)</b>	<b>\$ 273,164</b>

*Securities Lending Program* – The Board of Trustees' policies permit the System to lend securities (domestic and international equities and fixed income) to securities firms on a temporary basis through its custodian bank. The System receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. Cash, letters of credit or various government securities having market values equal to or exceeding 102% and 105% of the value of the loaned securities for domestic and international securities, respectively, collateralize all security loan agreements. Whenever the market value of the securities on loan changes, the borrower must adjust the collateral accordingly. The System's bank pools all collateral received from securities lending transactions and invests any cash collateral. The System holds an undivided share of the collateral provided by the borrowers of the securities. At June 30, 2010 the weighted-average maturity of the collateral pool was 24 days. The relationship between the maturities of the collateral pool and the System's loans has not been determined. Cash collateral invested in the custodian bank collateral pool at June 30, 2010 was \$196,200 thousand. The System cannot sell or pledge the collateral unless the borrower fails to return the securities borrowed

The market value of securities on loan at June 30, 2010 was \$190,358 thousand. At June 30, 2010, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers, \$196,200 thousand, exceeds the amounts the borrowers owe the System, \$190,358 thousand.

*Derivatives* – The System's investment managers may invest in derivatives if permitted by the guidelines established by the System's Board of Trustees. The System's staff monitors guidelines and compliance. From time to time the System's investment managers will invest in equity, fixed income and short term futures contracts along with foreign currency forward contracts. No derivatives are purchased with borrowed funds.



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The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value (\$000's) of such derivative instruments for the year then ended is shown in the table below.

	Changes in Fair Value *	Fair Value at June 30, 2010		
		Classification	Amount	Notional Value
Investment derivatives:				
Short Term Investments	\$ 21	Short term investments	\$ 21	\$ 10,604
Futures contracts				
Equity Futures contracts	\$ (26)	Equity	\$ (26)	\$ 57,465
Fixed Income Futures contracts	\$ (1,257)	Fixed Income	\$ (1,257)	\$ 173,595
Foreign currency forward contracts				
British pound sterling	\$ (249)	Foreign currency contracts	\$ (249)	£ (5,243)
Canadian dollar	\$ 24	Foreign currency contracts	\$ 24	C\$ (2,104)
Danish krone	\$ (16)	Foreign currency contracts	\$ (16)	kr (7,165)
Euro	\$ (91)	Foreign currency contracts	\$ (91)	€ (36,043)
Japanese yen	\$ (657)	Foreign currency contracts	\$ (657)	¥ (3,935,815)
South Korean won	\$ -	Foreign currency contracts	\$ -	₩ (18,411)
Swedish krona	\$ (13)	Foreign currency contracts	\$ (13)	kr (4,902)

\* All changes in fair value are reported in Net appreciation (depreciation) in fair value of investments in the Statements of Changes in Plan Net Assets.

The Change in Fair Value figures in the preceding table represent amounts due to or due from derivative counterparties as of June 30, 2010. Such amounts are reported as a component of Net appreciation (depreciation) in the Statement of Changes in Net Plan Assets and are reported in the Statement of Plan Net Assets as Due to or Due from brokers for futures contacts and as Foreign currency contracts for currency forward contracts.

Futures on investments are used to obtain market exposure and to take advantage of mis-pricing opportunities. When a position is taken in a futures contract, a margin is posted and the contract is subject to daily mark-to-market adjustments. Foreign currency contracts are used to hedge against the currency risk in the System's investments in foreign equity and fixed income securities. To liquidate the contract prior to expiration an offsetting position in the same contract must be taken. These derivatives are used to enhance yields and provide incremental income.

These derivative instruments are subject to the following risks:

- *Custodial Credit Risk* – Custodial credit risk for derivative instruments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of the derivative instruments or collateral securities that are in the possession of an outside party. Consistent with the System's investment policy, the System's derivative instruments were held by the counterparty that was acting as the System's agent.

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- *Credit Risk* – The risk that the counterparty will not fulfill its obligations. The System does not have an investment policy specifically regarding credit risk for derivative instruments. The System’s investment policy allows investment managers full discretion in adopting investment strategies to deal with this risk. The System’s investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.
- *Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair values of the System’s derivative instruments.
- *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of derivative instruments. The System’s derivative instruments exposure to foreign currency risk in U.S. dollars as of June 30, 2010, is shown in the table below (000)’s.

Currency	Short Term Investments Futures	Equity Futures	Fixed Income Futures	Foreign currency contracts
Australian dollar	\$ -	\$ -	\$ 976	\$ -
British pound sterling	-	-	1,268	(8,094)
Canadian dollar	928	5,335	583	(1,956)
Danish krone	-	-	-	(1,194)
Euro	-	-	13,635	(44,241)
Japanese yen	4,223	-	8,482	(45,134)
South Korean won	-	-	-	(15)
Swedish krona	-	-	-	(642)
Total	<u>\$ 5,151</u>	<u>\$ 5,335</u>	<u>\$ 24,944</u>	<u>\$ (101,276)</u>

*Alternative Investments* – As of June 30, 2010, the System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the following chart (\$000’s).

<u>Investment Type</u>	<u>Fair Value (\$000's)</u>
<i>Private Equity</i>	
Leveraged Buyouts	\$ 120,421
Special Situations	95,866
Venture Capital	62,072
<i>Other Alternatives</i>	
Hedge Funds	286,340
Real Estate Funds	14,053
Structured Beta	456,536
	<u>\$ 1,035,288</u>

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**NOTE 4: ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The following were the allowances for doubtful accounts receivable by fund as of June 30, 2010 (000's):

Fund	Amount
General	
Uncollectible general property taxes	\$ 51,452
Ambulance charges	70,667
Fines and forfeits	33,038
Demolition liens	90,279
Others	5,180
Grant revenue	38,296
Airport System	1,427
Convention and Entertainment Facilities	
Accounts receivable	520
Hotel occupancy tax	236
Combined Utility System	104,267
	\$ 395,362

**NOTE 5: PROPERTY TAX**

The City's annual ad valorem property tax is required to be levied by October 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due on January 31 of the year following the year of the levy. A tax lien attaches to all property on January 1 of each year to secure the payment of all taxes, penalties and interest that is ultimately imposed on the property. The tax rate established by the City Council for the 2009 tax year was \$0.63875 per \$100 of assessed value with \$0.457284 for operations and \$0.181466 for debt service.

The City Charter limits the property tax rate to \$0.50 per \$100 of assessed valuation excluding taxes levied for "debt service," as that term is defined in Section 1 of Article III of the City Charter. The Texas Property Tax Code ("Code"), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for countywide appraisal districts.

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**NOTE 6: CAPITAL ASSETS**

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

A summary of changes in capital assets for the year ended June 30, 2010 follows (in thousands):

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Retirement</b>	<b>Transfers</b>	<b>Balance June 30, 2010</b>
<b>Primary Government</b>					
Capital assets not being depreciated:					
Land	\$ 341,840	\$ 2,517	\$ (52)	\$ 12,325	\$ 356,630
Right of way	1,714,316	907	(40)	3,691	1,718,874
Construction Work in Progress	449,399	365,936	-	(398,115)	417,220
Total capital assets not being depreciated	<u>2,505,555</u>	<u>369,360</u>	<u>(92)</u>	<u>(382,099)</u>	<u>2,492,724</u>
Other capital assets:					
Buildings	751,011	154	(1,754)	138,017	887,428
Improvements and Equipment	748,334	41,812	(23,521)	57,304	823,929
Infrastructure	5,301,626	5,112	(10,903)	186,926	5,482,761
Total other capital assets	<u>6,800,971</u>	<u>47,078</u>	<u>(36,178)</u>	<u>382,247</u>	<u>7,194,118</u>
Less accumulated depreciation for:					
Buildings	(225,981)	(20,637)	1,288	51	(245,279)
Improvements and Equipment	(481,462)	(51,758)	21,352	(198)	(512,066)
Infrastructure	(2,317,662)	(119,719)	1,277	(1)	(2,436,105)
Total accumulated depreciation	<u>(3,025,105)</u>	<u>(192,114)</u>	<u>23,917</u>	<u>(148)</u>	<u>(3,193,450)</u>
Other capital assets, net	<u>3,775,866</u>	<u>(145,036)</u>	<u>(12,261)</u>	<u>382,099</u>	<u>4,000,668</u>
Primary Government capital assets, net	<u>\$6,281,421</u>	<u>\$ 224,324</u>	<u>\$ (12,353)</u>	<u>\$ -</u>	<u>\$6,493,392</u>

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**B. Business-type Activities**

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2010</b>
<b>Airport System</b>					
Capital assets not being depreciated:					
Land	\$ 209,311	\$ -	\$ (1,400)	\$ 1,827	\$ 209,738
Construction Work in Progress	285,996	257,912	-	(73,357)	470,551
Total capital assets not being depreciated	<u>495,307</u>	<u>257,912</u>	<u>(1,400)</u>	<u>(71,530)</u>	<u>680,289</u>
Other capital assets:					
Buildings	1,975,730	455	-	30,544	2,006,729
Improvements and equipment	1,950,321	4,666	(3,878)	40,986	1,992,095
Total other capital assets	<u>3,926,051</u>	<u>5,121</u>	<u>(3,878)</u>	<u>71,530</u>	<u>3,998,824</u>
Less accumulated depreciation for:					
Buildings	(564,383)	(79,797)	-	(47)	(644,227)
Improvements and equipment	(898,252)	(84,389)	3,684	47	(978,910)
Total accumulated depreciation	<u>(1,462,635)</u>	<u>(164,186)</u>	<u>3,684</u>	<u>-</u>	<u>(1,623,137)</u>
Other capital assets, net	<u>2,463,416</u>	<u>(159,065)</u>	<u>(194)</u>	<u>71,530</u>	<u>2,375,687</u>
Airport System capital assets, net	<u>2,958,723</u>	<u>98,847</u>	<u>(1,594)</u>	<u>-</u>	<u>3,055,976</u>
<b>Convention and Entertainment Facilities</b>					
Capital assets not being depreciated:					
Land	99,757	-	(4,886)	-	94,871
Construction Work in Progress	4,767	1,132	-	(3,411)	2,488
Total capital assets not being depreciated	<u>104,524</u>	<u>1,132</u>	<u>(4,886)</u>	<u>(3,411)</u>	<u>97,359</u>
Other capital assets:					
Buildings	552,701	84	-	1,942	554,727
Garage Rights	13,144	-	-	-	13,144
Improvements and equipment	10,969	144	(36)	1,245	12,322
Infrastructure	110	-	-	224	334
Total other capital assets	<u>576,924</u>	<u>228</u>	<u>(36)</u>	<u>3,411</u>	<u>580,527</u>
Less accumulated depreciation/amortization for:					
Buildings	(164,195)	(14,039)	-	-	(178,234)
Garage Rights	(1,930)	(353)	-	-	(2,283)
Improvements and equipment	(6,505)	(560)	36	-	(7,029)
Infrastructure	(17)	(6)	-	-	(23)
Total accumulated depreciation/amortization	<u>(172,647)</u>	<u>(14,958)</u>	<u>36</u>	<u>-</u>	<u>(187,569)</u>
Other capital assets, net	<u>404,277</u>	<u>(14,730)</u>	<u>-</u>	<u>3,411</u>	<u>392,958</u>
Convention and Entertainment Facilities capital assets, net	<u>508,801</u>	<u>(13,598)</u>	<u>(4,886)</u>	<u>-</u>	<u>490,317</u>

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	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2010</b>
<b>Combined Utility System</b>					
Capital assets not being depreciated:					
Land	\$ 119,680	\$ 2,232	\$ (2,429)	\$ 571	\$ 120,054
Right of way	315	(3)	-	1,095	1,407
Construction Work in Progress	457,328	310,577	-	(495,542)	272,363
Total capital assets not being depreciated	577,323	312,806	(2,429)	(493,876)	393,824
Other capital assets:					
Buildings	106,532	350	-	65,235	172,117
Improvements and equipment	114,678	3,726	(2,522)	8,149	124,031
Infrastructure	8,393,958	327	(26,924)	558,148	8,925,509
Water Rights	456,915	4,594	-	556	462,065
Total other capital assets	9,072,083	8,997	(29,446)	632,088	9,683,722
Less accumulated depreciation/amortization for:					
Buildings	(44,568)	(3,745)	-	(2,005)	(50,318)
Improvements and equipment	(74,544)	(6,716)	2,534	(1,388)	(80,114)
Infrastructure	(4,007,852)	(193,236)	24,862	(16,012)	(4,192,238)
Total accumulated depreciation/amortization	(4,126,964)	(203,697)	27,396	(19,405)	(4,322,670)
Other capital assets, net	4,945,119	(194,700)	(2,050)	612,683	5,361,052
Combined Utility System capital assets, net	5,522,442	118,106	(4,479)	118,807	5,754,876
<b>Combined Non-Major Enterprise Funds</b>					
Capital assets not being depreciated:					
Construction Work in Progress	735	361	-	(1,077)	19
Total capital assets not being depreciated	735	361	-	(1,077)	19
Other capital assets:					
Buildings	19,749	-	(75)	(19,674)	-
Improvements and equipment	670	329	(67)	-	932
Infrastructure	121,595	219	-	(117,486)	4,328
Total other capital assets	142,014	548	(142)	(137,160)	5,260
Less accumulated depreciation for:					
Buildings	(1,641)	(379)	-	2,020	-
Improvements and equipment	(281)	(111)	66	-	(326)
Infrastructure	(14,473)	(3,371)	-	17,410	(434)
Total accumulated depreciation	(16,395)	(3,861)	66	19,430	(760)
Other capital assets, net	125,619	(3,313)	(76)	(117,730)	4,500
Combined Non-Major Enterprise Funds, net	126,354	(2,952)	(76)	(118,807)	4,519
Business-type activities capital assets, net	\$ 9,116,320	\$ 200,403	\$ (11,035)	\$ -	\$ 9,305,688

**CITY OF HOUSTON, TEXAS**  
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**C. Depreciation Expense**

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

<b>Governmental activities</b>	
General government	\$ 7,727
Public safety	34,352
Public works	12,526
Health	3,525
Housing	1,059
Parks and recreation	9,316
Library	3,890
Infrastructure	119,719
Total depreciation expense - governmental activities	\$ 192,114
<b>Business-type activities</b>	
Airport System	\$ 164,186
Convention & Entertainment Facilities	14,958
Combined Utility System	203,696
Nonmajor Business-type	3,861
Total depreciation expense - business-type activities	\$ 386,701

**D. Pension Trust Funds**

In February 1998, the Firefighters' Relief and Retirement Fund purchased land in the amount of \$483,325 for use in the construction of a new office building for its operations and its members. In April of 2001, the construction of the new building was completed. The building cost of \$9,165,952 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2010 amounted to \$2,843,240.

**NOTE 7: SHORT-TERM DEBT – TAX AND REVENUE ANTICIPATION NOTES**

Short-term debt activity for the year ended June 30, 2010, was as follows (amounts in thousands):

	<b>Balance July 1, 2009</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Balance June 30, 2010</b>
Tax and revenue				
Anticipation notes	\$ -	\$ 150,000	\$ 150,000	\$ -

On July 1, 2009, the City closed on the sale of \$150,000,000 Tax and Revenue Anticipation Notes ("TRANS"), Series 2009. The proceeds of the TRANS were used to pay working capital expenditures until tax revenues were received. The stated interest rate ranged from 2.0% to 2.5%, and the average yield was 0.397%. The notes matured on June 30, 2010.

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**NOTE 8: LONG-TERM LIABILITIES**

**A. General Long-Term Liabilities**

Changes in General Long-Term Liabilities for the year ended June 30, 2010 are summarized as follows (in thousands):]

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities</b>					
Bonds and notes payable					
General tax obligation debt	\$ 3,109,000	\$ 926,780	\$ (734,902)	\$ 3,300,878	\$ 334,005
Accretions, net	2,676	76	(2,752)	-	-
HUD Section 108 Loans	13,315	-	(3,305)	10,010	2,180
Plus premium (discount) on bonds	82,326	34,166	(9,296)	107,196	-
Less deferred amount on refundings	(14,335)	(744)	2,564	(12,515)	-
Total bonds and notes payable	<u>3,192,982</u>	<u>960,278</u>	<u>(747,691)</u>	<u>3,405,569</u>	<u>336,185</u>
Other liabilities:					
Claims and judgments	134,283	9,330	(14,040)	129,573	13,329
Compensated absences	411,310	72,505	(55,881)	427,934	139,481
Arbitrage rebate	336	-	(82)	254	212
Other Post Employment Benefit obligation	426,069	237,295	(49,773)	613,591	-
Net Pension obligation	620,307	271,602	(206,199)	685,710	-
Total other liabilities	<u>1,592,305</u>	<u>590,732</u>	<u>(325,975)</u>	<u>1,857,062</u>	<u>153,022</u>
<b>Governmental Activities Long-Term Liabilities</b>	<u>\$ 4,785,287</u>	<u>\$ 1,551,010</u>	<u>\$ (1,073,666)</u>	<u>\$ 5,262,631</u>	<u>\$ 489,207</u>
<b>Discretely Presented Component Units:</b>					
Notes payable	\$ 346,983	\$ 16,133	\$ (42,378)	\$ 320,739	\$ 15,942
Revenue bonds	168,686	57,043	(6,428)	219,301	6,790
<b>Discretely Presented Component Units Long-Term Liabilities</b>	<u>\$ 515,669</u>	<u>\$ 73,177</u>	<u>\$ (48,806)</u>	<u>\$ 540,040</u>	<u>\$ 22,732</u>

(Continued)



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	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
<b>Business-type activities</b>					
Bonds and notes payable					
Airport System debt	\$ 2,224,081	\$ 449,660	\$ (136,576)	\$ 2,537,165	\$ 57,640
Convention and Entertainment debt	590,799	-	(21,230)	569,569	23,260
Combined Utility System debt	5,453,015	702,510	(520,087)	5,635,438	74,629
Long-term contracts - Combined Utility	190,187	-	(14,928)	175,259	13,356
Premiums, discounts and deferred amount on refundings	136,869	(207)	(2,152)	134,510	-
Total bonds and notes payable	<u>8,594,951</u>	<u>1,151,963</u>	<u>(694,973)</u>	<u>9,051,941</u>	<u>168,885</u>
Other liabilities:					
Claims and judgments	6,533	1,081	(2,068)	5,546	2,068
Compensated absences	30,758	15,063	(14,231)	31,590	14,272
Arbitrage rebate liability	5,628	222	(1,251)	4,599	4,458
Other Post Employment Benefit obligation	59,735	35,990	(8,735)	86,990	-
Net Pension obligation	89,830	34,420	(24,516)	99,734	-
Deferred Revenue	335,985	20,325	-	356,310	-
Total other liabilities	<u>528,469</u>	<u>107,101</u>	<u>(50,801)</u>	<u>584,769</u>	<u>20,798</u>
<b>Business-type activities</b>					
<b>Long-Term Liabilities</b>	<u>\$ 9,123,420</u>	<u>\$ 1,259,064</u>	<u>\$ (745,774)</u>	<u>\$ 9,636,710</u>	<u>\$ 189,683</u>
<b>Total Reporting Entity</b>					
<b>Long-Term Liabilities</b>	<u>\$ 14,424,376</u>	<u>\$ 2,883,251</u>	<u>\$ (1,868,246)</u>	<u>\$ 15,439,381</u>	<u>\$ 701,622</u>

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

	<b>Stated Interest Rate Range, %</b>	<b>Face Value Outstanding 6/30/2009</b>	<b>FY10 Issued/ Increased</b>
<b>General Tax Obligation Debt</b>			
Public improvement bonds	3.00 to 5.75	\$ 1,988,300	\$ 507,680
Pension obligations	5.31 to 6.29	520,478	20,100
Commercial paper	0.12 to 10.00	519,200	390,000
Tax and revenue certificates of obligation	3.00 to 6.00	81,022	9,000
<b>Total General Tax Obligation Debt</b>		<b>\$ 3,109,000</b>	<b>\$ 926,780</b>
<b>HUD Section 108 Loans</b>			
		<b>\$ 13,315</b>	<b>\$ -</b>
<b>Revenue Bonded Debt</b>			
<b>Airport System Bonds</b>			
Senior Lien Revenue Bonds	5.00 to 5.50	\$ -	\$ 449,660
Subordinate lien refunding revenue bonds	0.52 to 6.00	2,083,255	-
Senior lien commercial paper	0.30 to 10.00	93,000	-
Inferior lien contractual obligation	5.38 to 5.50	45,820	-
Pension obligations	5.31 to 6.29	2,006	-
		<b>2,224,081</b>	<b>449,660</b>
<b>Convention and Entertainment Facilities</b>			
Senior lien hotel occupancy tax/parking facilities	1.12 to 5.75	543,115	-
Convention Center/Hotel Commercial Paper	0.18 to 10.00	-	-
Hotel and parking revenue commercial paper	0.79 to 10.00	43,800	-
Pension obligations	5.31 to 6.29	3,884	-
		<b>590,799</b>	<b>-</b>
<b>Combined Utility System</b>			
Combined Utility System first lien bonds	0.76 to 6.00	4,642,940	342,510
Water and Sewer System junior lien revenue bond	1.25 to 6.90	748,918	-
Combined Utility System commercial paper	0.17 to 10.00	-	360,000
Pension obligations	5.31 to 6.29	61,157	-
		<b>5,453,015</b>	<b>702,510</b>
<b>Long-Term Contracts-Water and Sewer System</b>			
Coastal Water Authority	3.00 to 7.50	166,490	-
Other long term contracts	3.22 to 5.87	23,697	-
		<b>190,187</b>	<b>-</b>
<b>Total Revenue Bonded Debt and Long-Term Contracts, Primary Government</b>		<b>\$ 8,458,082</b>	<b>\$ 1,152,170</b>
<b>Total Bonds and Long-Term Contracts Payable, Primary Government</b>		<b>\$ 11,580,397</b>	<b>\$ 2,078,950</b>

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

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<b>FY10 Redeemed / Refunded</b>	<b>Face Value Outstanding 6/30/2010</b>	<b>Adjustments<sup>(1)</sup></b>	<b>Net Outstanding 6/30/2010</b>
\$ 176,050	\$ 2,319,930	\$ 93,132	\$ 2,413,062
-	540,578	-	540,578
548,700	360,500	-	360,500
10,152	79,870	1,550	81,420
<u>\$ 734,902</u>	<u>\$ 3,300,878</u>	<u>\$ 94,682</u>	<u>\$ 3,395,560</u>
<u>\$ 3,305</u>	<u>\$ 10,010</u>	<u>\$ -</u>	<u>\$ 10,010</u>
\$ -	\$ 449,660	\$ (1,367)	\$ 448,293
45,490	2,037,765	(29,546)	2,008,219
87,000	6,000	-	6,000
4,085	41,735	-	41,735
-	2,006	-	2,006
<u>136,575</u>	<u>2,537,166</u>	<u>(30,913)</u>	<u>2,506,253</u>
21,230	521,885	82,483	604,368
-	-	-	-
-	43,800	-	43,800
-	3,884	-	3,884
<u>21,230</u>	<u>569,569</u>	<u>82,483</u>	<u>652,052</u>
369,565	4,615,885	(66,871)	4,549,014
26,022	722,896	146,712	869,608
124,500	235,500	-	235,500
-	61,157	-	61,157
<u>520,087</u>	<u>5,635,438</u>	<u>79,841</u>	<u>5,715,279</u>
14,825	151,665	(1,510)	150,155
103	23,594	5,095	28,689
<u>14,928</u>	<u>175,259</u>	<u>3,585</u>	<u>178,844</u>
<u>\$ 692,820</u>	<u>\$ 8,917,432</u>	<u>\$ 134,996</u>	<u>\$ 9,052,428</u>
<u>\$ 1,431,027</u>	<u>\$ 12,228,320</u>	<u>\$ 229,678</u>	<u>\$ 12,457,998</u>

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

**1. Public Improvement Bonds**

The City has issued Public Improvement Bonds on numerous occasions. The bonds are payable from ad valorem tax revenues. The proceeds are used for street and bridge improvements, traffic signals, municipal buildings, parks, and other capital improvements. Interest is payable semi-annually; principal is payable in various amounts annually through March 1, 2039.

**2. Pension Obligation Bonds**

The City has issued several series of General Obligation Taxable Pension Bonds. The proceeds were used to reduce the unfunded actuarial accrued liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. Interest is payable semi-annually, and principal is payable in varying amounts through 2037. Although these obligations have an ad valorem tax pledge, a portion of the liabilities is recorded in the enterprise funds because the liabilities are directly related and expected to be paid from those funds based on percentages of payroll.

**3. General Obligation Swap Agreements**

On February 20, 2004 the City entered into a basis swap referred to as a synthetic reduced variance coupon swap with RFPC, LLC ("RFPC"). The objective of the swap was for the City to reduce its fixed rate debt service costs through a swap structure that takes on basis risk.

General Obligation Swap Termination. On August 25, 2009 the City terminated its \$200,000,000 general obligation basis swap because Ambac Assurance Corporation, guarantor for the counterparty, had been downgraded below standards acceptable in the contract. The City received a termination payment of \$2,404,000 which covered accrued contract payments of \$3,557,000 due through 2010 offset by a negative fair market value of \$1,153,000 at time of termination.

**4. General Obligation Commercial Paper**

The City currently may issue Commercial Paper Notes ("Notes") under its \$325 million General Obligation Commercial Paper Series E Program, \$276 million General Obligation Commercial Paper Series G Program, \$100 million General Obligation Commercial Paper Series H-1 Program, \$100 million General Obligation Commercial Paper Series H-2 Program and \$125 million General Obligation Commercial Paper Series J Program. General Obligation Commercial Paper Notes Series A, B, C, D and F have been terminated. The Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Notes, but not to exceed 10%. Principal on the Notes is payable from ad valorem tax revenue, the issuance of new commercial paper, bond proceeds and other funds provided under credit lines. Interest is payable from ad valorem tax revenue collected by the City. Proceeds from the Notes are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the Notes will be remarketed by the commercial paper dealers or extinguished with long-term debt.

During fiscal year 2010 the average interest rate for the General Obligation Notes, including dealer and credit fees, was 0.88%. The average year-end rate, including fees, was 0.74%. The Credit Agreements expire on the following dates: Series E on April 29, 2011, Series G on November 15, 2011, Series H-1 on February 11, 2011, Series H-2 on February 23, 2012 and Series J on May 8, 2013.

**5. Certificates of Obligation**

Since 1988, the city has issued Certificates of Obligation each year to provide for the purchase of equipment utilized in general City operations including, without limitation, police vehicles, maintenance vehicles and equipment, computer equipment, and costs associated with demolishing dangerous structures. Each year the City is obligated to levy, assess, and collect ad valorem taxes sufficient to pay principal and interest on the certificates payable semi-annually until maturity. Generally, these certificates are not subject to redemption prior to final maturity, except for the Certificates of Obligation Series 2005D which are subject to optional redemption on or after March 1, 2015.

**6. HUD Section 108 Loan**

The City has borrowed money from the United States Department of Housing and Urban Development ("HUD") and loaned it to the Houston Business Development Initiative ("HBDI") and three hotels in the downtown business district. HBDI in turn makes small business loans to under-served areas of the community. The City has pledged only certain grant revenues and its receipts from the loans to repay HUD.

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**7. Airport System Revenue Bonds**

On August 20, 2009 the City issued \$449,660,000 of Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A (“the Airport Bonds”). The bonds mature in varying amounts from 2015 to 2039. The Series 2009A Bonds are the first series to be issued at the Senior Lien level and are payable from a lien on the net revenues of the Houston Airport System, which must total 125% of debt service requirements for such fiscal year. The Series 2009A Bonds are not subject to the alternative minimum tax (AMT). The Houston Airport System has also issued Subordinate Lien Bonds which are paid solely from a lien on the airport system’s net revenues, which must total 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. The bonds have a final maturity in the year 2032. Airport System Subordinate Lien Revenue Bonds, Series 2000P1 and 2000P2, 2002C, 2002D-1, and 2002D-2, have been issued as auction rate securities with current 7-day resets. Series 2005A has been issued as Variable Rate Demand Obligations with a 7-day reset. These bonds may all be converted to other modes including fixed rate bonds. The City has a liquidity facility in place for the Series 2005A bonds with a termination date of February 1, 2011. The maximum interest rate permitted under the ordinance is 10%.

The City has purchased municipal debt service reserve fund policies that unconditionally guarantee the payment of principal and interest on all current outstanding airport system subordinate lien issues. The reserve policies terminate upon final maturities on various dates in the future. Each of the draws made against the reserve policy shall bear interest at the Prime Rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw. The City cash funded a reserve fund for its Houston Airport System 2009 Senior Lien Revenue Bonds.

**8. Airport System Inferior Lien Contract**

On July 1, 2004 the City and Continental Airlines, Inc. entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City’s Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A (“1997A Special Facilities Bonds”). The City assumed Continental’s interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport System net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling \$41,735,000, is recorded as an Inferior Lien Contract.

**9. Airport System Commercial Paper**

Airport System Senior Lien Commercial Paper Notes Series A and B (the “Notes”) have been authorized for \$150 million, and Airport System Inferior Lien Commercial Paper Notes Series C have been authorized for \$150 million to establish, improve, enlarge, extend and repair the City’s Airport System, acquire land, and pay interest and cost of issuance of the Notes. During fiscal year 2010 the average interest rate for the Airport System Notes, including dealer and credit fees, was 0.83%. The average year-end rate, including fees, was 0.57%. The Series A and B Notes are collateralized by a revolving credit agreement convertible to direct pay letters of credit issued by a bank, and a lien on the net revenues of the Airport System. The Letter of Credit will terminate on January 4, 2011 for Series A and B.

**10. Airport System Pledged Revenues**

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Revenue Bonds, Senior Lien Commercial Paper Notes, Subordinate Lien Revenue Bonds, and an Inferior Lien Contract, with outstanding principal amounts of \$449,600,000, \$6,000,000, \$2,037,765,000, and \$41,735,000, respectively. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. The Inferior Lien Sublease Agreement with Continental Airlines pays debt service on the Airport System Special Facilities Bonds (Automated People Mover Project) Series 1997A.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled \$180,250,000 in Fiscal Year 2010, covering principal of \$51,832,000 and interest of \$94,728,000. In addition to pledged airport system revenue, grants and passenger facility charges totaling \$56,058,000 were available to cover debt service in Fiscal Year 2010, making the ratio of net pledged revenue to reduced debt service cost 1.99%.

**11. Convention and Entertainment Facilities Bonds**

These bonds are special limited obligations of the City that are paid from a lien on the pledged receipts of the Hotel Occupancy Tax (HOT), revenues collected from seven City-owned parking facilities, and rebates of certain taxes derived from operation of the Convention Center Hotel and Parking Garage. The pledged HOT receipts are equal to 5.65% of the cost of substantially all hotel room rentals in the City, plus related penalties and interest for delinquent payments. As long as any of the Senior Lien

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Bonds remain outstanding, the City is required to levy a Hotel Occupancy Tax at a rate not less than 7%. The City currently levies a Hotel Occupancy Tax at the rate of 7%. Final maturity of the bonds is September 1, 2033.

The City has obtained a debt service reserve insurance policy for the Senior Lien Hotel Occupancy Tax Revenue Bonds. The surety policy provides insurance sufficient to pay maximum annual debt service of the Bonds. The surety policy expires upon final maturity of all outstanding Bonds, September 1, 2033. The City of Houston Convention Center Revenue Bonds, Series 2001C-1 and 2002C-2, have been issued as 7-day auction rate securities and are subject to conversion at the option of the City and subject to certain restrictions, to bonds that bear interest at rates other than auction rates. The maximum interest rate permitted under the ordinance is 10%.

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

Hotel Occupancy Tax and Parking Revenue Commercial Paper Notes Series A have been authorized for \$75 million to finance the costs of site acquisition, construction, and improvements for convention center facilities. The notes are issued as subordinate lien debt. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Upon maturity, the Notes will be remarketed by the commercial paper dealer or extinguished with long-term debt. The Notes are collateralized by a Letter of Credit that expires on January 16, 2011. During fiscal year 2010 the average interest rate for the Notes, including fees, was 0.57%. The average rate in effect at year-end was 0.57%.

**13. Combined Utility System First Lien Revenue Bonds**

City Council authorized creation of the Combined Utility System (“the System”) on September 3, 2003. The Combined Utility System currently consists of the City’s Water and Sewer System. In the future the City may elect to include other utility systems. Its bonds are special obligations of the City payable from Net Revenues of the System after payments for maintenance and operations and debt service on Water and Sewer Junior Lien bonds. Net Revenues must equal 110% of the First Lien Revenue Bonds debt service.

The Combined Utility System Revenue Refunding Bonds, Series 2004B and 2004C, were initially issued as Auction Rate Securities. All of the 2004B auction rate securities were converted to variable rate demand bonds in April 2008. The Combined Utility System Revenue Refunding bonds 2008A were issued as tax-exempt variable rate demand bonds to refund \$249M of the 2004C tax-exempt auction rate securities, and the Combined Utility System Revenue Refunding Bonds 2008D were issued as taxable variable rate bonds to refund \$200M of the 2004C taxable auction rate as securities. The remainder of the 2004C auction rate securities were converted to put bonds that mature on May 15, 2011. In March 2010, the Combined Utility System issued \$249 million of SIFMA-indexed floating notes to refund all of the 2008A bonds.

**14. Combined Utility System Commercial Paper**

The Combined Utility System established a new Commercial Paper Notes Program Series B which has been authorized for \$700 million to finance costs of eligible projects for the City’s combined utility system, including acquisition or construction of improvements and additions or extension for the system, and costs of issuance. The notes are issued as third lien obligations. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Principal on the Notes is payable from the issuance of new commercial paper, bond proceeds and other funds provided under separate letters of credit with J.P. Morgan Bank; Wells Fargo; Scotia Bank; Barclay’s and Citi totaling \$600 million. The letters of credit with JP Morgan, Wells Fargo and Scotia Bank expire on December 17, 2012. The agreements with Barclay’s and Citi expire on July 13, 2013. Interest on the Notes is payable from net revenues of the System and loans under the credit agreement. During fiscal year 2010, the average interest rate for outstanding Notes, including credit and dealer fees, was 1.463%. There was \$235.5 million outstanding as of June 30, 2010.

**15. Combined Utility System Synthetic Fixed Rate Swap Agreements**

Combined Utility System synthetic fixed rate swaps. On June 10, 2004 the City entered into three identical pay-fixed, receive-variable rate swap agreements. The City pre-qualified six firms to submit competitive bids on the swap. The bidding took place on June 7, 2004. The three firms selected all matched the lowest fixed rate bid of 3.7784%.

Objective. The objective of the swaps is to hedge against the potential of rising interest rates in conjunction with the City’s Combined Utility System 2004B variable rate interest bonds (“2004B Bonds”).

Terms. The notional amount totals \$653,325,000, the principal amount of the associated 2004B Bonds. The City’s swap agreements contain scheduled reductions to outstanding notional amounts that follow anticipated payments of principal of the 2004B Bonds in varying amounts during the years 2028 to 2034.

Under the terms of the swaps, the City will pay a fixed rate of 3.7784% and receive a floating rate equal to 57.6% of One-Month US Dollar LIBOR plus 37 basis points. All agreements were effective June 10, 2004, the date of issuance of the 2004B Bonds. The termination date is May 15, 2034.

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At June 30, 2010, the effective rate on the 2004B Bonds associated with the swap was computed as follows:

	<u>Terms</u>	<b>RATE (%)</b> <b>Received</b> <b>(Paid)</b>
Variable rate payment from counterparties	LIBOR x 57.6%	0.2014
	+ Constant	<u>0.3700</u>
Swap receipt		0.5714
Fixed rate paid to counterparties	Fixed	<u>(3.7784)</u>
Net rate (paid)/received for swap		(3.2070)
Average variable rate on 2004B bonds, year end		(0.2602)
Plus dealer and credit fees on 2004B bonds		<u>(1.1909)</u>
Effective rate of 2004B bonds		<u>(4.6581)</u>

In contrast, the fixed rate the City paid on its Combined Utility System Series 2004A fixed rate bonds, which have a comparable maturity, was 5.08%.

Fair value. Because long-term interest rates have changed since inception of the swaps, the swaps had a negative fair value of \$134,919,000 on June 30, 2010. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is recorded on the balance sheet of the Combined Utility System in the “deferred outflow/inflow liability” accounts. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2010, the City was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates increase and the fair value of the swap become positive, the City would be exposed to credit risk on the swap in the amount of its fair value. The City’s swap policy generally requires that swap counterparties be rated double-A or better by at least one nationally recognized rating agency at inception. Under the agreements, if a counterparty’s credit rating falls below AA, collateral must be posted in varying amounts depending on the credit rating and fair market value to the City of the swaps. No collateral has been required to date.

<u>COUNTERPARTY</u>	<u>Notional</u> <u>Amount</u>	<u>Fair Value</u>	<u>Counterparty</u> <u>Credit Rating</u> <u>(Moody’s/S&amp;P/Fitch)</u>
Goldman Sachs Capital Markets	\$ 353,325,000	\$ (72,965,000)	A1/A/A+
JP Morgan Chase	150,000,000	(30,977,000)	Aa1/AA-/AA-
UBS AG	<u>150,000,000</u>	<u>(30,977,000)</u>	Aa3 /A+ /A+
<b>TOTAL</b>	<u>\$ 653,325,000</u>	<u>\$ (134,919,000)</u>	

Basis risk. The City is exposed to basis risk on the swaps because the variable payment received is based on an index other than BMA. Should the relationship between LIBOR and BMA move to convergence (because of reductions in tax rates, for example), the expected cost savings may not be realized. The City has issued variable rate demand bonds with an average rate of 0.26% (not including dealer and credit fees) as of June 30, 2010, whereas the associated LIBOR-based rate of the swap was 0.57%.

Termination risk. The City may terminate for any reason. A counterparty may terminate a swap if the City fails to perform under the terms of the contract. The City’s on-going payment obligations under the swap (and, to a limited extent, its termination payment obligations) are insured, and counterparties cannot terminate so long as the insurer does not fail to perform. If a swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap’s fair value.

Remarketing risk. The City faces a risk that the remarketing agent will not be able to sell the variable rate bonds at a competitive rate. At times rates vary as investors shift portfolios in and out of the tax-exempt variable rate sector.

Swap payments and associated debt. As of June 30, 2010, debt service requirements for the swap agreements are reported in Note 8D, assuming current interest rates remain the same. As rates vary, variable rate bond interest payments and net swap payments will vary. Expected debt service payments on the associated Combined Utility System 2004B bonds are included with other Combined Utility System Bonds on Note 8D.

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**16. Combined Utility System Forward Interest Rate Swap**

Combined Utility System Forward Starting Swap. On November 1, 2005 the City entered into a forward interest rate swap transaction with Royal Bank of Canada (“RBC”). The transaction was conducted through a competitive bid process.

Objective. The City entered the swap agreement to hedge against the potential of rising interest rates associated with underlying variable rate bonds of \$249,075,000.

Terms. Under the terms of the contract, the City will pay a fixed rate of 3.761% on a par value of \$249,075,000, and it will receive variable payments based on 70% of one-month LIBOR. The City’s scheduled net swap payments are insured by Ambac Assurance Corporation.

At June 30, 2010, the effective rate on the 2010B Bonds associated with the swap was computed as follows:

	<u>Terms</u>	<b>RATE (%)</b> <b>Received</b> <b>(Paid)</b>
Variable rate payment from counterparties (Swap Receipt)	LIBOR x 70%	0.2448
Fixed rate paid to counterparty	Fixed	<u>(3.7610)</u>
Net rate (paid)/received for swap		(3.5162)
Year-end variable rate on 2010B bonds		(0.2500)
Plus credit fees on 2010B bonds		<u>(1.3000)</u>
Effective rate of 2010B bonds		<u>(5.0662)</u>

Fair value. The swap had a fair value of negative \$47,500,000 on June 30, 2010. The fair value is recorded on the balance sheet of the Combined Utility System in the “deferred outflow/inflow liability” accounts. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2010, the City was not exposed to credit risk because the fair market value of the swap was negative to the City. As of June 30, 2010, RBC was rated Aaa, AA- and AA by Moody’s, Standard and Poor’s, and Fitch respectively. Under the agreement, if RBC’s credit rating falls below double-A, collateral must be posted in varying amounts depending on the credit rating if the fair value of the swap is positive to the City. No collateral has been required to date.

Basis risk. The City is exposed to basis risk on the swap because the variable payment received is based on an index that is not tax-exempt. Should the relationship between LIBOR and SIFMA move to convergence (because of reductions in tax rates, for example), the expected cost savings may not be realized. At June 30, 2010 the interest rate in effect for the underlying variable rate bonds was 0.25% while the rate in effect for the swap receipts was 0.24%.

Termination risk. The City may terminate for any reason. RBC may terminate a swap if the City fails to perform under the terms of the contract. The City’s on-going payment obligations under the swap (and, to a limited extent, its termination payment obligations) are insured, and RBC cannot terminate so long as the insurer does not fail to perform. If a swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap’s fair value.

Swap payments and associated debt. As of June 30, 2010, debt service requirements for the swap agreements are reported in Note 8D as if the swap was in effect, assuming current interest rates remain the same. As rates vary, variable rate bond interest payments and net swap payments will vary. Expected debt service payments on the associated Combined Utility System 2008A bonds are included with other Combined Utility System Bonds on Note 8D.

**17. Water and Sewer System Junior Lien Revenue Bonds**

These bonds are paid solely from a lien on the net water and sewer system revenues, which must total 110% of the current debt service requirements on the junior lien bonds. As part of the restructuring to the new Combined Utility System, the City refunded a substantial portion of the outstanding junior lien bonds on June 10, 2004 and reissued bonds as Combined Utility System bonds. Debt service payments on remaining Water and Sewer Junior Lien Revenue Bonds (“Junior Lien Bonds”) will be made after payment of operating expenses and prior to any debt service payments on the Combined Utility System bonds. The final maturity date for the remaining junior lien bonds is December 1, 2028. No additional Junior Lien Bonds may be issued.



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

The contract payable relating to CWA represents the outstanding principal balance of \$71,580,000 at June 30, 2010 of City of Houston Water Conveyance System Contract Certificates of Participation, Series 1993, representing contract payments owed by the City to pay debt service on bonds issued by CWA, plus \$80,085,000 of CWA Revenue Refunding Bonds, Series 1999 and Series 2004, issued by CWA, a governmental agency of the State of Texas, to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City issued the Certificates and endorsed the bonds and is unconditionally obligated to pay from the gross operating revenues of the City’s water and sewer system all debt service payments on these Certificates and Bonds, as well as amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The bonds mature on December 15, 2034.

**19. Other Contracts**

Payments on the following contracts will be made only after the Water Sewer System has funded all maintenance and operation costs and debt service payments for the water and sewer system, including required reserves.

On June 20, 1967 the City, TRA, and Chambers-Liberty Counties Navigation District contracted with the United States of America to have the U.S. Army Corps of Engineers build a salinity control barrier and recreation facilities at Wallisville Lake. Because of legal actions, construction was blocked for a long period, and the project was not completed until April 2003. The City’s share of the project cost was \$10,580,707, which will be paid to the U.S. government over 50 years at 3.222% interest with final payment due January 1, 2053.

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

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

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

Year Ending June 30	Public Improvement Bonds		Pension Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 137,155	\$ 116,913	\$ -	\$ 31,255
2012	130,620	110,071	20,100	31,361
2013	125,615	103,585	-	31,254
2014	131,285	97,212	5,375	31,254
2015	141,665	90,731	5,750	30,916
2016-2020	756,220	342,630	35,400	148,619
2021-2025	558,840	168,362	97,010	130,192
2026-2030	255,720	56,705	147,735	95,119
2031-2035	55,905	16,164	171,383	41,000
2036-2040	26,905	2,964	57,825	4,440
Total	<u>\$ 2,319,930</u>	<u>\$ 1,105,337</u>	<u>\$ 540,578</u>	<u>\$ 575,410</u>

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<b>Year Ending June 30</b>	<b>General Obligation Commercial Paper</b>		<b>Tax and Revenue Certificates of Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 184,600	\$ 2,411	\$ 12,250	\$ 3,522
2012	175,900	603	6,250	3,269
2013	-	-	11,095	2,984
2014	-	-	2,890	2,458
2015	-	-	3,010	2,341
2016-2020	-	-	17,395	9,375
2021-2025	-	-	18,915	4,794
2026-2030	-	-	8,065	610
2031-2035	-	-	-	-
2036-2040	-	-	-	-
<b>Total</b>	<b>\$ 360,500</b>	<b>\$ 3,014</b>	<b>\$ 79,870</b>	<b>\$ 29,353</b>

<b>Year Ending June 30</b>	<b>Total Future Requirements</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total Future Requirements</b>
2011	\$ 334,005	\$ 154,101	\$ 488,106
2012	332,870	145,304	478,174
2013	136,710	137,823	274,533
2014	139,550	130,924	270,474
2015	150,425	123,988	274,413
2016-2020	809,015	500,624	1,309,639
2021-2025	674,765	303,348	978,113
2026-2030	411,519	152,434	563,953
2031-2035	227,288	57,164	284,452
2036-2040	84,730	7,404	92,134
<b>Total</b>	<b>\$ 3,300,877</b>	<b>\$ 1,713,114</b>	<b>\$ 5,013,991</b>

**2. HUD Section 108 Loans (in thousands):**

<b>Year Ending June 30</b>	<b>HUD Section 108 Loans (in thousands)</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2011	\$ 2,180	\$ 578	\$ 2,758
2012	727	487	1,214
2013	645	443	1,088
2014	645	402	1,047
2015	659	360	1,019
2016-2020	3,334	1,112	4,446
2021-2025	1,820	175	1,995
<b>Total</b>	<b>\$ 10,010</b>	<b>\$ 3,557</b>	<b>\$ 13,567</b>

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**3. Enterprise Funds (adjusted for capital appreciation and deferred reclassification of principal and interest) (in thousands):**

Year Ending	Airport System Senior Lien Revenue Bonds		Airport System Senior Lien Commercial Paper		Airport System Subordinate Lien Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2011	\$ -	\$ 23,819	\$ 6,000	\$ 18	\$ 47,335	\$ 85,936
2012	-	23,819	-	-	52,185	83,625
2013	-	23,819	-	-	51,240	81,248
2014	-	23,819	-	-	59,015	78,796
2015	-	23,819	-	-	59,265	76,166
2016-2020	51,250	112,938	-	-	348,100	336,208
2021-2025	65,410	98,425	-	-	451,080	247,917
2026-2030	83,545	79,791	-	-	573,135	142,631
2031-2035	108,130	54,368	-	-	396,410	28,680
2036-2039	141,325	20,264	-	-	-	-
Total	<u>\$ 449,660</u>	<u>\$ 484,881</u>	<u>\$ 6,000</u>	<u>\$ 18</u>	<u>\$ 2,037,765</u>	<u>\$ 1,161,207</u>

Year Ending	Airport System Inferior Lien Contract		Airport System Pension Obligations	
	Principal	Interest	Principal	Interest
June 30				
2011	\$ 4,305	\$ 2,163	\$ -	\$ 107
2012	4,535	1,925	-	106
2013	4,780	1,675	-	107
2014	5,040	1,407	-	106
2015	5,315	1,123	-	106
2016-2020	17,760	1,500	-	533
2021-2025	-	-	-	533
2026-2030	-	-	601	517
2031-2035	-	-	1,405	211
2036-2039	-	-	-	-
Total	<u>\$ 41,735</u>	<u>\$ 9,793</u>	<u>\$ 2,006</u>	<u>\$ 2,326</u>

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<b>Year Ending</b>	<b>Airport System Total</b>		
	<b>Future Requirements</b>		
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 57,640	\$ 112,043	\$ 169,683
2012	56,720	109,475	166,195
2013	56,020	106,849	162,869
2014	64,055	104,128	168,183
2015	64,580	101,214	165,794
2016-2020	417,110	451,179	868,289
2021-2025	516,490	346,875	863,365
2026-2030	657,281	222,939	880,220
2031-2035	505,945	83,259	589,204
2036-2039	141,325	20,264	161,589
<b>Total</b>	<b>\$ 2,537,166</b>	<b>\$ 1,658,225</b>	<b>\$ 4,195,391</b>

<b>Year Ending</b>	<b>Convention and Entertainment</b>		<b>Convention and Entertainment</b>		<b>Convention and Entertainment</b>	
	<b>Facilities Revenue Bonds</b>		<b>Facilities Commercial Paper</b>		<b>Pension Obligations</b>	
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>
2011	\$ 23,260	\$ 14,743	\$ -	\$ 252	\$ -	\$ 243
2012	24,835	13,300	-	252	-	242
2013	27,830	11,863	-	252	-	242
2014	29,560	10,273	43,800	134	60	242
2015	31,165	8,589	-	-	65	239
2016-2020	93,566	75,096	-	-	380	1,129
2021-2025	94,606	97,823	-	-	1,045	930
2026-2030	103,598	118,310	-	-	1,492	554
2031-2035	93,465	103,401	-	-	842	88
2036-2040	-	-	-	-	-	-
<b>Total</b>	<b>\$ 521,885</b>	<b>\$ 453,398</b>	<b>\$ 43,800</b>	<b>\$ 890</b>	<b>\$ 3,884</b>	<b>\$ 3,909</b>

<b>Year Ending</b>	<b>Convention and Entertainment</b>		
	<b>Total Future Requirements</b>		
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 23,260	\$ 15,238	\$ 38,498
2012	24,835	13,794	38,629
2013	27,830	12,357	40,187
2014	73,420	10,649	84,069
2015	31,230	8,828	40,058
2016-2020	93,946	76,225	170,171
2021-2025	95,651	98,753	194,404
2026-2030	105,090	118,864	223,954
2031-2035	94,307	103,489	197,796
2036-2040	-	-	-
<b>Total</b>	<b>\$ 569,569</b>	<b>\$ 458,197</b>	<b>\$ 1,027,766</b>

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<b>Year Ending June 30</b>	<b>Combined Utility System Revenue Bonds</b>		<b>Combined Utility System Swap Agreements</b>	<b>Combined Utility System Commercial Paper</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Net Swap Payment</b>		
2011	\$ 43,875	\$ 191,396	\$ 29,650	\$ -	\$ 4,775
2012	29,230	189,029	29,638	-	4,775
2013	41,850	187,264	29,650	235,500	2,210
2014	78,905	185,252	29,650	-	-
2015	74,565	181,369	29,650	-	-
2016-2020	474,840	844,653	148,224	-	-
2021-2025	860,240	696,207	148,236	-	-
2026-2030	1,159,175	451,251	144,124	-	-
2031-2035	1,398,790	235,366	53,546	-	-
2036-2040	454,415	37,948	-	-	-
<b>Total</b>	<b>\$ 4,615,885</b>	<b>\$ 3,199,735</b>	<b>\$ 642,368</b>	<b>\$ 235,500</b>	<b>\$ 11,760</b>

<b>Year Ending June 30</b>	<b>Water and Sewer Jr. Lien Revenue Bonds</b>		<b>Combined Utility System Pension Obligations</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 30,754	\$ 56,415	\$ -	\$ 3,814
2012	42,045	65,812	-	3,814
2013	41,523	65,665	-	3,814
2014	55,350	22,454	910	3,814
2015	69,955	19,566	975	3,756
2016-2020	351,910	65,703	5,985	17,773
2021-2025	106,056	74,289	16,420	14,656
2026-2030	25,303	98,573	23,403	8,760
2031-2035	-	-	13,464	1,414
2036-2040	-	-	-	-
<b>Total</b>	<b>\$ 722,896</b>	<b>\$ 468,477</b>	<b>\$ 61,157</b>	<b>\$ 61,615</b>

<b>Year Ending June 30</b>	<b>Combined Utility System Total Future Requirements</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Net Swap Payment</b>	<b>Total Future Requirements</b>
2011	\$ 74,629	\$ 256,400	\$ 29,650	\$ 360,679
2012	71,275	263,430	29,638	364,343
2013	318,873	258,953	29,650	607,476
2014	135,165	211,520	29,650	376,335
2015	145,495	204,691	29,650	379,836
2016-2020	832,735	928,129	148,224	1,909,088
2021-2025	982,716	785,152	148,236	1,916,104
2026-2030	1,207,881	558,584	144,124	1,910,589
2031-2035	1,412,254	236,780	53,546	1,702,580
2036-2040	454,415	37,948	-	492,363
<b>Total</b>	<b>\$ 5,635,438</b>	<b>\$ 3,741,587</b>	<b>\$ 642,368</b>	<b>\$ 10,019,393</b>

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**4. Long-Term Contracts-Water and Sewer System (in thousands):**

<b>Coastal Water Authority</b>			
<b>Maintenance &amp; Operations Lien</b>			
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Future Requirements</b>
2011	\$ 13,250	\$ 8,117	\$ 21,367
2012	13,340	7,246	20,586
2013	13,440	6,394	19,834
2014	13,480	5,564	19,044
2015	13,515	4,731	18,246
2016-2020	29,655	16,158	45,813
2021-2025	22,805	10,772	33,577
2026-2030	16,435	5,423	21,858
2031-2035	15,745	1,939	17,684
2036			-
<b>Total</b>	<b>\$ 151,665</b>	<b>\$ 66,344</b>	<b>\$ 218,009</b>

<b>Year Ending June 30</b>	<b>Other Water &amp; Sewer System Contracts</b>				<b>Other Contracts Total</b>		
	<b>U.S. Army Corps of Engineers</b>		<b>Texas Water Development Board</b>		<b>Future Requirements</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 106	\$ 309	\$ -	\$ 573	\$ 106	\$ 882	\$ 988
2012	110	306	-	696	110	1,002	1,112
2013	113	302	-	819	113	1,121	1,234
2014	117	299	-	819	117	1,118	1,235
2015	121	295	-	819	121	1,114	1,235
2016-2020	664	1,412	-	7,484	664	8,896	9,560
2021-2025	778	1,299	1,935	5,341	2,713	6,640	9,353
2025-2030	911	1,165	4,055	3,086	4,966	4,251	9,217
2031-2035	1,068	1,009	5,385	1,755	6,453	2,764	9,217
2036-2040	1,251	825	2,625	233	3,876	1,058	4,934
2041-2045	1,467	610	-	-	1,467	610	2,077
2046-2050	1,719	359	-	-	1,719	359	2,078
2051-2055	1,170	76	-	-	1,170	76	1,246
<b>Total</b>	<b>\$ 9,595</b>	<b>\$ 8,266</b>	<b>\$ 14,000</b>	<b>\$ 21,625</b>	<b>\$ 23,595</b>	<b>\$ 29,891</b>	<b>\$ 53,486</b>

**E. Debt Issuances and Refundings**

Throughout its history, the City has issued refunding bonds from time to time when there has been an operational or economic gain for the City. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt, including the debt balances refunded during fiscal 2010 described below, has been removed from the City's books.

Airport System Senior Lien Revenue and Refunding Bonds

On August 20, 2009 the City issued \$449,660,000 of Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A ("the Airport Bonds") at rates ranging from 5.0 to 5.5%. The true interest cost was 5.42%. The bonds mature in varying amounts from 2015 to 2039. Proceeds were set aside to fund new construction, to fund a debt service reserve fund and capitalized interest fund, to pay costs of issuance, and to currently refund \$87,000,000 of Senior Lien Commercial Paper Series A AMT. The Airport Bonds were issued to replace the variable rate commercial paper and lock in long term fixed rates rather than to achieve debt service savings. Cash flow and net present value savings cannot be computed because the refunded commercial paper paid interest at varying rates depending on current market conditions. The Series 2009A Bonds are the first series to be issued at the Senior Lien level. The Series 2009A Bonds are not subject to the alternative minimum tax (AMT) as they are issued under the AMT Holiday provision of the American Recovery and Reinvestment Act.

Public Improvement Refunding Bonds

On September 15, 2009 the City closed the sale of \$430,850,000 of Public Improvement Refunding Bonds, Series 2009A ("the PIBS 2009A bonds") and \$76,830,000 of Public Improvement Refunding Bonds, Taxable Series 2009B ("the PIBS 2009B bonds"). The 2009B bonds are Build America Bonds, which are taxable bonds subsidized by a 35% rebate payment from the IRS. The bonds are

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due in varying amounts from March 1, 2010 to March 1, 2039. Stated interest rates ranged from 2.0% to 6.1%. The true interest cost on the PIBS 2009A bonds and the PIBS 2009B bonds net of the subsidy was 4.00%.

Proceeds of the PIBS 2009A and 2009B Bonds were used to currently refund the 1999A Public Improvement Bonds, a portion of the 2001A Public Improvement Bonds, a portion of the 2002 Public Improvement Bonds, the 2000A Certificates of Obligation and \$488,400,000 of outstanding General Obligation Commercial Paper Series E-1, G, H-1 and H-2 Notes and to pay costs of issuance. Net present value savings on the refunded bonds was \$1,741,841 or 3.7%.

Taxable Pension Obligation Bonds

On May 21, 2010, the City issued a pension note in the amount of \$20,100,000 to fund part of the unfunded actuarial accrued liability of the Houston Police Officers Pension System and to pay costs of issuance. The City pays interest of Libor + 0.41% on the Note. The notes mature on November 16, 2011.

Certificates of Obligation

On June 30, 2010 the City issued a Certificate of Obligation (Demolition Program), Series 2010 in the amount of \$9,000,000. Proceeds from the bonds were used to pay for the demolition of dangerous structures within the City and costs of issuance. The City pays interest of 67% of Libor + 0.45%, and the notes mature on June 30, 2012. However, the City has the option to refund the notes prior to the maturity date.

Combined Utility System Revenue Refunding Bonds

On February 17, 2010 the City closed on the sale \$15,110,000 of Combined Utility System Revenue and Refunding Bonds, Series 2010 A ("the CUS 2010A bonds") in a private placement to the Texas Water Development Board ("TWDB"). The bonds were issued at rates ranging from 0.25% to 3.0% with true interest cost of 2.52%. The bonds are due in varying amounts from 2010 to final maturity on November 15, 2039. A portion of the proceeds were used to currently refund \$14,450,000 of outstanding Combined Utility System Commercial Paper Notes which were used to fund projects previously approved by the TWDB. Because the refunded commercial paper notes paid interest at varying rates depending on current market conditions, cash flow and net present value savings cannot be computed. The CUS 2010A Bonds were issued to lock in long term fixed rates rather than to achieve debt service savings. The remaining proceeds will be used to fund other TWDB approved water and sewer projects, to fund a reserve, and to pay cost of issuance of the bonds.

On March 23, 2010 the City closed on the sale of \$249,075,000 of Combined Utility System Revenue and Refunding Bonds, Series 2010B ("the CUS 2010B bonds") in a private placement with the Royal Bank of Canada. The bonds are SIFMA-indexed notes with weekly interest resets based on SIFMA + 1.30%. The bonds are due in varying amounts from 2028 to final maturity on May 15, 2034. A portion of the proceeds were used to refund the Combined Utility System 2008 Variable Rate Demand Bonds.

**F. Bond Compliance Requirements**

The revenue bond ordinances require that during the period in which the bonds are outstanding the City must create and maintain certain accounts or funds to receive the proceeds from the sale of the revenue bonds and to account for the revenues (as defined), which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

The city is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 2%. During fiscal year 2010 the City has complied with the requirements of all revenue bond ordinances and related bond restrictions.

**G. Voter Authorized Obligations**

On November 4, 2001, voters of the City authorized the issuance of \$776,000,000 of Public Improvement Bonds. Since June 2002 City Council has authorized issuance of the entire amount as General Obligation Commercial Paper Series G, H-1 and H-2.

On November 7, 2006, voters of the City authorized the issuance of \$625,000,000 in additional Public Improvement Bonds. City Council has authorized issuance of \$223,550,000 as General Obligation Commercial Paper Series G, H-1, H-2 and J.

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

**H. Legal Debt Margin**

At June 30, 2010, the City's legal debt limit was 10% of assessed property valuation totaling \$195,817,362,000. The City's legal debt margin less applicable outstanding debt was \$16,280,858,000.

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**NOTE 9: LEASES**

**Operating Leases**

**A. City as Lessee**

The City has obtained office space, data processing and other equipment through long-term operating leases. The total cost for such leases was \$11,034,540 for the year ended June 30, 2010. The cost is \$6,015,707 for the General funds, \$2,001,178 for the Grant funds, \$1,683,651 for the Non-Major Governmental funds, \$927,108 for the Combined Utility System funds, \$304,101 for the Airport System funds, \$59,660 for the Convention and Entertainment Facilities funds and \$43,135 for the Internal Service funds.

The future minimum payments under these agreements are as follows (in thousands):

<b>Year ended June 30</b>	<b>Operating Lease Payments</b>
2011	\$ 6,131
2012	6,441
2013	4,820
2014	3,834
2015	3,090
2016-2020	14,158
2021-2025	790
Total	<u>\$ 39,264</u>

**B. City as Lessor**

The Convention and Entertainment Facilities department is the lessor of one (1) land lease, Toyota Center Land Lease, with an asset cost of \$20,000,000; six (6) building leases of which all are substantially leased with asset costs of \$206,241,232 and carrying costs of \$150,995,680. Accumulated depreciation on these assets is \$55,245,552. These buildings located in the Theater District are; Hobby Center for the Performing Arts, Wortham Theater, Jones Hall Theater, Houston Arts Center, Talento Bilingue and the Downtown Aquarium. All buildings are used for performance and entertainment purposes.

The Airport System is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of \$20,973,855 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, hangers, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of \$3,998,823,902 and carrying costs of \$2,375,686,270. Accumulated depreciation on all these assets is \$1,623,137,633.

Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

<b>Year ended June 30</b>	<b>Operating Leases Minimum Rental Income</b>
2011	\$ 42,226
2012	36,023
2013	33,671
2014	31,855
2015	30,295
2016-2020	129,959
2021-2025	120,459
2026-2030	65,811
2031-2035	18,186
2036-2040	12,968
2041-2045	4,433
2046-2050	419
2051-2055	100
Total	<u>\$ 526,405</u>



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Contingent income associated with these non-cancelable operating leases was approximately \$7,158,963 for the year ended June 30, 2010. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the year ended June 30, 2010 was \$252,539,000.

**NOTE 10: PENSION PLANS**

**A. Plan Descriptions**

The City has three single employer defined benefit pension plans (Firefighters' Relief and Retirement Fund, Municipal Employees' Pension System, and the Police Officers' Pension System), which cover substantially all of its employees. These pension plans were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243g, 6243g-4, respectively), which establish the various benefit provisions. All plans provide for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes, and for the Municipal Employees' Pension System and the Houston Police Officers' Pension System, some requirements are delineated in new (September '04) meet and confer agreements. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or, in the cases of the Municipal Employees' Pension System and the Police Officers' Pension System, amounts agreed to in meet and confer agreements. All pension plans provide service, disability, death, and vesting benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes. The specific summary plan description for each Plan is available at the plan offices.

On November 10, 2004 the City issued a \$300,000,000 collateralized note ("The Collateralized Note") to HMEPS as part of the meet and confer agreement with HMEPS to fund part of the unfunded accrued actuarial liability of its pension plan. This note was paid in January 2009 with proceeds from City of Houston, Texas Taxable Pension Obligation Refunding Bonds, Series 2008. (See "Long-Term Liabilities" Note 8-C for further Pension Obligation Bond information.)

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

Historically, the City's funding policies have provided for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll, except for the police officers pension system, which has had a statutorily limited level of employer contributions. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The firefighters' and municipal pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 30 years from July 1, 2004 and the police pension uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability over 30 years (constant).

The reported contributions to the pension funds for the year ended June 30, 2010, were different from the actuarially determined requirements based on July 1, 2009 actuarial valuation for Municipal, Fire, and Police. Contributions are as follows:

<u>Percentage of Payroll</u>	<u>Firefighters</u>	<u>Municipal</u>	<u>Police</u>
City of Houston normal cost	19.8%	5.8%	15.5%
Amortization of unfunded actuarial accrued liability (surplus)	4.0%	14.3%	16.2%
Required employer contribution rate	<u>23.8%</u>	<u>20.1%</u>	<u>31.7%</u>
Employer contribution made	<u>29.4%</u>	<u>14.9%</u>	<u>19.2%</u>
Employee contribution made	<u>9.0%</u>	<u>5.0%</u>	<u>9.0%</u>
<b><u>Contribution Amounts (in thousands)</u></b>			
Net contribution required	<u>\$ 82,811</u>	<u>\$ 132,422</u>	<u>\$ 154,710</u>
Total City contribution	74,215	83,500	73,000
Total employee contribution	22,728	19,736	34,218
Total contribution	<u>\$ 96,943</u>	<u>\$ 103,236</u>	<u>\$ 107,218</u>

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

The annual pension cost associated with the City's three pension funds for the current year is as follows (in thousands):

	<b>Houston Firefighters' Pension</b>	<b>Municipal Employees' Pension</b>	<b>Police Officers' Pension</b>
Annual required contribution	\$ 60,039	\$ 112,714	\$ 120,492
Interest on net pension obligation	2,314	26,610	31,437
Adjustment to annual required contribution	(1,919)	(22,062)	(23,602)
Annual pension cost	<u>60,434</u>	<u>117,262</u>	<u>128,327</u>
Contribution made	74,215	83,500	73,000
Change in net pension obligation	13,781	(33,762)	(55,327)
Net pension obligation beginning	(27,228)	(313,062)	(369,846)
Net pension obligation end of year	<u>\$ (13,447)</u>	<u>\$ (346,824)</u>	<u>\$ (425,173)</u>

**D. Schedule of Funding Progress (in millions)**

	<b>Houston Firefighters' Pension</b>	<b>Houston Municipal Employees' Pension</b>	<b>Houston Police Officers' Pension</b>
Actuarial Valuation Date	July 1, 2009	July 1, 2009	July 1, 2009
Actuarial Value of Plan Assets (a)	\$ 3,062.2	\$ 2,284.4	\$ 3,430.9
Actuarial Accrued Liability (AAL) Entry Age (b)	\$ 3,209.7	\$ 3,451.4	\$ 4,368.5
Unfunded AAL (Surplus UAAL) (b - a)	\$ 147.5	\$ 1,167.0	\$ 937.6
Funded Ratio (a/b)	95%	66%	79%
Projected Annual Covered Payroll (c)	\$ 258.9	\$ 539.0	\$ 366.9
UAAL as Percentage of Covered Payroll ((b - a)/c)	57%	217%	256%

**E. Houston Firefighters' Pension System**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Asset (Obligation)</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2008	\$66.7	80.9%	(\$39.4)	29.4%
2009	\$58.7	120.7%	(\$27.2)	24.1%
2010	\$60.4	122.8%	(\$13.4)	23.8%

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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, net of expenses
Inflation rate	3.0%
Payroll growth rate	3.0%
Annual increase attributable to seniority/merit	3.0% to 7%
Cost of living adjustment	3% annually

**F. Houston Municipal Pension System Information**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Obligation</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2008	\$96.7	77.5%	\$285.5	19.5%
2009	\$106.1	74.0%	\$313.1	19.2%
2010	\$117.2	71.2%	\$346.8	20.1%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry Age Normal cost
Amortization method	Level percentage of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year period
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
investment rate of return	8.5%, net of expenses
Payroll growth factor	3.0%
Projected individual salary increases	Graded rates based on years of service
General inflation rate	3.0%

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**G. Houston Police Officer's Pension System Information**

Schedule of Employer Contributions (in millions)

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Obligation</b>	<b>Annual Required Contribution as a % of Base Pay</b>
2008	\$129.5	48.6%	\$318.6	32.1%
2009	\$119.3	57.0%	\$369.8	30.9%
2010	\$128.3	56.9%	\$425.2	31.7%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level percent of payroll Amortized over a constant open period of 30 years
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, with a maximum of 5-year average of 7.0%
Payroll growth rate, attributable entirely to inflation	3.5 %
Annual increase attributable to seniority/merit	0.0% to 9.5%
Annual cost of living adjustment	3.0%
Projected salary increases	Graded rates based on years of service

**NOTE 11: OTHER EMPLOYEE BENEFITS**

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

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City amounted to approximately \$58,508,171 for the year ended June 30, 2010. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2010, there were 9,152 retirees eligible to receive benefits.

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**Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset**

The annual OPEB cost associated with the City's retiree health care costs for the current year is as follows (in thousands):

	<b>OPEB</b>
Annual required contribution	\$ 281,358
Interest on net OPEB obligation	22,043
Adjustment to annual required contribution	(30,073)
Annual OPEB cost	273,328
Contribution made	(58,550)
Increase in net OPEB obligation	214,778
Net OPEB obligation beginning	485,803
Net OPEB obligation end of year	\$ 700,581

<b>Fiscal Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2008	\$326,518	16.7%	\$272,041
2009	\$270,047	20.9%	\$485,803
2010	\$273,328	21.4%	\$700,581

**Schedule of Funding Progress (in millions)**

<b>Year Ended June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (b-a)</b>	<b>Funded Ratio</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
2009	\$0	\$3,096	\$3,096	0%	\$1,136.5	272.4%
2010	\$0	\$3,031	\$3,031	0%	\$1,193.5	254.1%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Discount Rate	4.5%
Annual increase attributable to seniority/merit	3.0% to 12.5%
Medical trend rates	4.0% to 11.0%

**B. Health Benefits Internal Service Fund**

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self-insured Preferred Provider Organization Plan (PPO) with specific individual aggregate stop loss features. Specific and aggregate stop loss insurance provided for the PPO plan is \$150,000 individual and approximately \$9,530,486 aggregate based on enrollment. Premiums paid (employer and subscriber) for current employees to third party administrators totaled approximately \$214,394,276 for the year ended June 30, 2010.

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The City also provides one times salary of basic life insurance, with a minimum of \$15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled \$5,471,246 for the year ended June 30, 2010.

<b>PPO/POS and PPO/OOA</b>		
<b>Schedule of Changes in Liability</b>		
<b>(in thousands)</b>		
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Beginning actuarial estimate of claims liability, July 1	\$ 943	\$ 911
Incurred claims for fiscal year	9,350	9,068
Payments on claims	(9,635)	(9,786)
Actuarial adjustment	239	750
Ending actuarial estimate of claims liability, June 30	\$ 897	\$ 943

**C. Long-Term Disability Plan**

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

<b>(in thousands)</b>		
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Beginning actuarial estimate of claims liability, July 1	\$ 8,059	\$ 8,260
Incurred claims for fiscal year	2,413	2,342
Payments on claims	(770)	(845)
Actuarial adjustment	(1,833)	(1,698)
Ending actuarial estimate of claims liability, June 30	\$ 7,869	\$ 8,059

**D. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum amount is the lesser of \$50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is \$1,000. Pursuant to tax law changes, the Plan's assets are no longer subject to the City's general creditors and are not included in these financial statements.

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

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

At June 30, 2010 the City has an accumulated liability in the amount of \$67 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the Statement of Net Assets and Enterprise Funds. The amount of liability is based on an actuarial study.

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<b>Schedule of Changes in Liability</b>		
<b>(in thousands)</b>		
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Beginning actuarial estimate of claims liability, July 1	\$ 76,718	\$ 77,986
Incurred claims for fiscal year	7,947	13,128
Payments on claims	(14,011)	(13,504)
Actuarial adjustment	(3,565)	(892)
Ending actuarial estimate of claims liability, June 30	\$ 67,089	\$ 76,718

**NOTE 12: INTERFUND TRANSACTIONS**

**A. Transfers**

Transfers during the year ended June 30, 2010, were as follows (in thousands):

<b>Transferred from:</b>	<b>Transferred to:</b>						<b>Total Transfers Out</b>
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Debt Service</b>	<b>Convention &amp; Entertainment Facilities</b>	<b>Combined Utility System</b>	<b>Houston Area Water Corporation</b>	
General Fund	\$ -	\$ 11,576	\$ 272,769	\$ 1,259	\$ -	\$ -	\$ 285,604
Grants Fund	4,199	150	-	-	-	-	4,349
Nonmajor Funds	5,583	1,446	2,177	-	-	-	9,206
Capital Projects	16,598	-	49,116	-	-	-	65,714
Convention and Entertainment	7,976	116	-	-	-	-	8,092
Combined Utility System	-	28,845	26,828	-	-	6,923	62,596
Nonmajor Enterprise Funds	9,139	390	-	-	22,950	-	32,479
Total transfers in	\$ 43,495	\$ 42,523	\$ 350,890	\$ 1,259	\$ 22,950	\$ 6,923	\$ 468,040

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

**B. Transfers to Component Units**

Transfers to the Houston Arts Alliance from the Convention and Entertainment Facilities during the year ended June 30, 2010 totaled \$10,152,649.

**C. Interfund Charges**

The General Fund charges the Airport System, Convention and Entertainment Facilities, Combined Utility System, Capital Project, Sign Administration, Auto Dealer's and Cable Television Funds for services provided by the General Fund on behalf of these funds. Such charges totaled \$62,918,000 for the year ended June 30, 2010, and are recorded as revenue in the General Fund and as expense, expenditure or capital assets in the funds assessed.

Included in the Fiscal Year 2010 total are charges to the funds for direct and indirect expenses as shown below (in thousands):

	<b>Airport System</b>	<b>Convention &amp; Entertainment Facilities</b>	<b>Combined Utility Sytem</b>	<b>Parking Management</b>	<b>Other Funds</b>	<b>Total</b>
General Services	\$ 2,771	\$ 940	\$ 3,148	\$ 247	\$ 8,906	\$ 16,012
Fire Services	16,244	-	-	-	-	16,244
Police Services	19,888	-	-	-	-	19,888
Legal	106	-	806	-	247	1,159
Other	9	-	2,021	-	7,585	9,615
Total	\$ 39,018	\$ 940	\$ 5,975	\$ 247	\$ 16,738	\$ 62,918

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

The interfund balances are primarily due to charges for services between funds during the fiscal year and settled shortly after year-end. The composition of interfund balances as of June 30, 2010 is as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Combined Utility System	\$ 47
	Grants revenue	10,293
	Nonmajor Governmental Funds	961
	Capital Projects Fund	132
	Airport System	186
	Internal Service Fund	1,187
		<u>\$ 12,806</u>
Grants Revenue	General Fund	\$ 1,443
	Combined Utility System	774
	Airport System	192
		<u>\$ 2,409</u>
Capital Projects Fund	General Fund	\$ 742
	Combined Utility System	1
	Grants revenue	101
		<u>\$ 844</u>
Airport System	General Fund	\$ 787
	Internal Service Fund	60
	Grants revenue	9,985
		<u>\$ 10,832</u>
Convention and Entertainment Facilities	General Fund	\$ 46
	Grants revenue	113
	Internal Service Fund	8
		<u>\$ 167</u>
Combined Utility System	Grants revenue	\$ 7,399
	Nonmajor Governmental Funds	5
	Internal Service Fund	197
	General Fund	28
		<u>\$ 7,629</u>
Nonmajor Governmental Funds	General Fund	\$ 40
	Combined Utility System	220
	Airport System	160
		<u>\$ 420</u>
Internal Service Fund - Health Benefits	General Fund	\$ 1
		<u>\$ 1</u>
Nonmajor Enterprise - Parking Management	General Fund	\$ 2
		<u>\$ 2</u>



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**NOTE 13: COMMITMENTS AND CONTINGENCIES**

**A. Litigation and Claims**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotional practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; and claims involving property tax assessments and various other liability claims. Alleged damages in the lawsuits are approximately \$271.8 million. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. There is other threatened litigation for which an amount cannot be determined. The City typically utilizes the General Fund to liquidate claims and judgments. In the Statement of Net Assets, the City has recognized a liability of \$57.4 million for potential litigation losses arising from various lawsuits.

In 2004, Houston voters approved two ballot propositions limiting City revenue growth. Proposition 1 generally limits annual growth in property tax revenues to the lesser of the actual revenues in the preceding fiscal year, plus 4.5 percent, or the revenues received in the previous fiscal year, plus the cumulative combined rates of inflation and the City's population growth. With the exception of grant monies, revenue received from other governmental entities and interfund transfers, Proposition 2 caps growth in all City revenues, including the General Fund, Special Revenue Funds and Enterprise Funds ("combined revenues"). Proposition 2 would require a 60 percent vote at a regular election before the City could increase combined revenues over the combined revenues for the preceding fiscal year as adjusted for rates of change in the consumer price index and population growth. Any combined revenues collected by the City in excess of the Proposition 2 restriction would be placed in a taxpayer relief fund. Although both propositions received a majority of votes in the 2004 election, it is the City's position that only Proposition 1 is effective because it received a higher number of favorable votes.

Supporters of Proposition 2 have sued in State District court to enforce the provisions of Proposition 2. The district court ruled in favor of the plaintiffs and ordered that both propositions be in effect. The City filed an appeal, and the Fourteenth Court of Appeals reversed the district court, finding that the supporters of Proposition 2 did not have standing to sue. The plaintiffs subsequently filed a petition for review in the Texas Supreme Court and the City filed a response. The petition for review has not been ruled on yet and remains pending. The City does not believe that the plaintiffs will be able to establish facts sufficient to cause the Supreme Court to grant them standing.

In 2007, Houston voters approved several ballot propositions including Proposition G, which eliminated some of the most serious concerns created by the potential application of Proposition 2 - by revising how the City's revenues limited by the Charter would be calculated (including the removal of the revenues of the City's Enterprise Funds from the revenues limited by the City Charter), and Proposition H, which allowed the City to raise revenues for police, fire, and emergency services in excess of the revenues allowed under any revenue limitations contained in the City Charter. A supporter of Proposition 2 filed a suit in State District court seeking to invalidate Propositions G and H. The court dismissed the lawsuit, but the Court of Appeals reversed and remanded to the State District Court, in order to give the plaintiff an opportunity to amend his pleadings to establish standing. The City has appealed this ruling to the Texas Supreme Court.

**B. Environmental Liabilities**

The City is aware of various sites contaminated by asbestos or other hazardous materials. The City has recorded accrued liabilities of \$4.4 million, to be used for: assessment and remediation of asbestos, lead and mold; Phase I and II environmental site assessments and remediation; and remediation of radioactive material.

**C. Commitments for Capital Facilities**

At June 30, 2010, the City had appropriated but not yet spent from Capital Projects and Enterprise Funds approximately \$945,749,000 for capital projects.

The City leased a tract of land to the Houston Music Hall Foundation for 30 years with a 30-year renewal option. On this site, the Houston Music Hall Foundation constructed the facility named the Hobby Center for the Performing Arts, which was donated to the City.

Upon commencement of the lease, the City is obligated to pay from parking revenues \$1.1 million per year for 30 years. The City's annual obligation is secured by a pledge of the parking revenues from the Theater District and Tranquility Park Parking Garages equal to \$1.2 million per year for 30 years.

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**D. Risk Management**

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of \$100 million and commercial property insurance with a per occurrence loss limit of \$150 million. The current sub-limit for flood is \$75 million, of which \$50 million may apply to locations in the 100-year flood plain (Flood Zone A). Property insurance provides deductibles as follows: \$2.5 million per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to a \$2.5 million minimum and a \$20 million maximum deductible; and 5% of the damaged insured value for flood, subject to a \$5 million minimum and a \$20 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is \$20 million. Tropical Storm Allison (2001) losses sustained were not in excess of the \$150 million per occurrence loss limit; however, flooding caused damages in excess of the prior \$5 million sub-limit to Flood Zone A. Insurance reimbursed the City \$32.6 million for property damage resulting from Tropical Storm Allison. Hurricane Ike (2008) losses sustained were not in excess of the \$150 million per occurrence loss limit. Insurance reimbursed the City \$11.4 million for property damage resulting from Hurricane Ike.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the Government-wide Statement of Net Assets.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

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

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

	<b>Unemployment Claim Activity</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Unpaid claims, beginning of fiscal year	\$196,011	\$117,602
Incurred claims (including IBNRs)	1,303,948	613,348
Claim payments	(1,206,735)	(534,939)
Unpaid claims, end of fiscal year	<u>\$293,224</u>	<u>\$196,011</u>

**E. Purchase Commitments for Electricity**

At June 30, 2010 the City had entered into agreements to lock rates for part of the natural gas component of its expected electricity use from July 1, 2010 through June 30, 2013. The total committed price is approximately \$213 million for expected usage. The City may pay a different amount if actual electricity usage varies. This amount will be appropriated in future annual budgets.

**F. Purchase Commitment - Luce Bayou Inter-Basin Transfer Project**

On January 29, 2009 City Council approved a contract establishing the terms for cooperation between the Coastal Water Authority ("CWA") and Houston for the planning, design, property acquisition, permitting, construction and financing of the Luce Bayou Inter-Basin Transfer Project, a canal and pipeline to move 400 million gallons of surface water per day from the Trinity River Basin to Lake Houston. As part of the agreement, CWA agreed to finance preliminary project costs from funds on hand plus proceeds of a \$28,000,000 Water Infrastructure Loan ("WIF") from the Texas Water Development Board, and the City pledged to make debt service payments on the WIF beginning in 2019 through 2028. Pledged revenues for the loan are Net Revenues held in the General Purpose Fund of the Combined Utility System. Interest rates range from 2.13% to 2.88%. No interest will be charged until 2019. After the loan is repaid and all other obligations of the contract are fulfilled, upon request of the City CWA will assign to the City all of CWA's rights, titles and interest in the project property.

**G. Federal and State**

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

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 14: RELATED ORGANIZATION TRANSACTIONS**

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

The City and Metro have an interlocal agreement covering shared costs of street maintenance/construction and traffic control during the fiscal year ended June 30, 2010. The City received \$108.620 million from Metro under this contract in the fiscal year ended June 30, 2010. The breakout was \$80.333 million to Capital Projects, \$25.000 million to General Fund, and \$3.287 million to Special Revenues. None of these payments were for the prior contract year.

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

As described in Note 8C, the City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the fiscal year ended June 30, 2008, all outstanding long term debt had been paid off. During the fiscal year ended June 30, 2010 the City paid \$3.2 million for maintenance and operating expenses under the terms of the contract.

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

The City has a long-term contract with Coastal Water Authority (CWA) for the water conveyance. During the fiscal year ended June 30, 2010, the City paid CWA \$23.8 million for debt service and \$20.8 million for maintenance and operating expenses.

**D. Houston Convention Center Hotel Corporation**

Upon formation of the Houston Convention Center Hotel Corporation (HCCHC), the City entered into various agreements with HCCHC, as part of the agreements, the City agreed to loan HCCHC \$310 million of the convention & entertainment facility bonds, primarily for construction of the Hilton Americas Hotel. Repayment terms of the loan (including interest rates) coincide with the City’s scheduled debt service payments

In accordance with the Interlocal Agreement and the hotel management agreement, after meeting certain other funding and reserve requirements, the City can require the distribution of a preferred return from available cash flow (as defined) equal to the preferred return amount (approximately \$1 million for 2003, \$20 million for 2004, and \$25 million per year thereafter) minus the debt service for the applicable year. In May 2010, a preferred return payment of \$4.4 million was made to the City.

**E. Component Units**

As described in note 16, the City has a number of component units, most of which have fiscal years ended June 30, 2010. Three discreetly presented component units; Houston Convention Center Hotel Corporation (HCCHC), Houston Housing Financing Corporation (HHFC) and Miller Theatre Advisory Board, Inc. (MTAB) have fiscal years ended December 31, 2009. Subsequent to December 31, 2009, the City received interest payments of \$4,616 thousand from HCCHC, none from HHFC and none from MTAB. The following governmental discreetly presented component units had restatements for their most recent audited financial statements: (a) Greater Greenspoint Redevelopment Authority, (b) Gulfgate Redevelopment Authority, (c) Houston Parks Board, Inc. and (d) Main Street Market Square Redevelopment Authority. In addition, the proprietary blended component unit Houston Area Water Corporation (HAWC) was dissolved on May 5, 2010 and \$22,945 thousand of net assets were transferred to the City.

**NOTE 15: CONDUIT DEBT OBLIGATIONS**

To provide for the airport facilities, the City has issued eight series of Special Facility Revenue Bonds. These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements, except for the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A, which are reported as an Inferior Lien Obligation because the City has contracted with Continental Airlines to operate certain facilities and pay related debt service. See Note 8D.

At June 30, 2010, the aggregate value of Special Facility Revenue Bonds outstanding was \$619 million, which includes \$41.8 million of City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A.

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 16: MAJOR DISCRETELY PRESENTED COMPONENT UNITS**

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

During fiscal year 2010, the City added two new discretely presented component units (Leland Woods Redevelopment Authority and Leland Woods Redevelopment Authority II, which resulted in the addition of \$1,166 thousand of ending net assets. In addition, four discretely presented component units (Greater Greenspoint Redevelopment Authority, Gulfgate Redevelopment Authority, Houston Parks Board, Inc. and Main Street Market Square Redevelopment Authority) restated their financial statements which had an additive affect to beginning net asset of \$2,292 thousand.

**Net Assets**  
**Major Component Units - Discretely Presented Governmental**  
**June 30, 2010**  
(in thousands)

	<b>Greater Houston Convention &amp; Visitor's</b>	<b>Houston Arts Alliance</b>	<b>Houston Downtown Park Corporation</b>
Cash, receivable and other current assets	\$ 10,811	\$ 6,528	\$ 1
Noncurrent assets	-	-	-
Capital assets, net of accumulated depreciation	140	69	78,654
<b>Total assets</b>	<b>10,951</b>	<b>6,597</b>	<b>78,655</b>
Current liabilities	2,406	3,386	2,688
Long-term liabilities	-	-	19,119
<b>Total liabilities</b>	<b>2,406</b>	<b>3,386</b>	<b>21,807</b>
Net assets			
Invested in capital assets, net of related debt	-	-	57,054
Restricted	-	2,386	-
Unrestricted (deficit)	8,545	825	(206)
<b>Total net assets (deficit)</b>	<b>\$ 8,545</b>	<b>\$ 3,211</b>	<b>\$ 56,848</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

<b>Main Street Market Sq Redevelopment Authority</b>	<b>Midtown Redevelopment Authority</b>	<b>Uptown Development Authority</b>	<b>Nonmajor Component Units</b>	<b>2010</b>
\$ 14,616	\$ 55,081	\$ 22,749	\$ 161,026	\$ 270,812
403	1,491	1,289	22,150	25,333
-	8,040	12,198	51,214	150,315
<u>15,019</u>	<u>64,612</u>	<u>36,236</u>	<u>234,390</u>	<u>446,460</u>
1,228	4,587	10,911	19,144	44,350
26,345	47,140	72,854	100,826	266,284
<u>27,573</u>	<u>51,727</u>	<u>83,765</u>	<u>119,970</u>	<u>310,634</u>
-	5,694	12,199	33,298	108,245
4,849	33,123	11,461	89,198	141,017
(17,403)	(25,932)	(71,189)	(8,076)	(113,436)
<u>\$ (12,554)</u>	<u>\$ 12,885</u>	<u>\$ (47,529)</u>	<u>\$ 114,420</u>	<u>\$ 135,826</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**Change in Net Assets**  
**Major Component Units - Discretely Presented Governmental**  
**For the Year Ended June 30, 2010**  
(in thousands)

<b>Component Units</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Greater Houston Convention &amp; Visit. Bureau</b>
Greater Houston Convention & Visitors Bureau	\$ 15,445	\$ 575	\$ 16,142	\$ 1,272
Houston Arts Alliance (frmly Cultural Arts Cou..)	14,850	-	10,651	-
Houston Downtown Park Corporation	1,286	1,080	9	-
Main Street Market Square Redevelopment Auth	14,170	-	-	-
Midtown Redevelopment Authority	11,717	-	514	-
Uptown Development Authority	25,592	-	-	-
Nonmajor Component Units	58,641	5,842	18,842	-
<b>Total component units</b>	<b>\$141,701</b>	<b>\$ 7,497</b>	<b>\$ 46,158</b>	<b>\$ 1,272</b>
 <b>General Revenues:</b>				
Taxes				
Property taxes levied for general purposes				\$ -
Unrestricted investment earnings				202
Other				-
Loss on sales of assets				-
Transfers				-
<b>Total general revenues, special</b>				<b>202</b>
Change in net assets				1,474
Net assets beginning				7,071
New component unit & restatement				-
Net assets ending				<b>\$ 8,545</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

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

<b>Houston Arts Alliance</b>	<b>Houston Downtown Park Corporation</b>	<b>Main St Market Sq Redevelopment Authority</b>	<b>Midtown Redevelopment Authority</b>	<b>Uptown Redevelopment Authority</b>	<b>Non-Major Component Units</b>	<b>Total Component Units</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,272
(4,199)	-	-	-	-	-	(4,199)
-	(197)	-	-	-	-	(197)
-	-	(14,170)	-	-	-	(14,170)
-	-	-	(11,203)	-	-	(11,203)
-	-	-	-	(25,592)	-	(25,592)
-	-	-	-	-	(33,957)	(33,957)
<u>\$ (4,199)</u>	<u>\$ (197)</u>	<u>\$ (14,170)</u>	<u>\$ (11,203)</u>	<u>\$ (25,592)</u>	<u>\$ (33,957)</u>	<u>\$ (88,046)</u>
\$ -	\$ -	\$ 7,782	\$ 14,141	\$ 17,546	\$ 42,834	\$ 82,303
-	-	-	112	101	3,532	3,947
3,781	-	135	346	-	1,093	5,355
-	-	-	-	-	54	54
-	-	-	-	-	(686)	(686)
<u>3,781</u>	<u>-</u>	<u>7,917</u>	<u>14,599</u>	<u>17,647</u>	<u>46,827</u>	<u>90,973</u>
(418)	(197)	(6,253)	3,396	(7,945)	12,870	2,927
3,629	57,045	(5,601)	9,489	(39,584)	98,557	130,606
-	-	(700)	-	-	2,993	2,293
<u>\$ 3,211</u>	<u>\$ 56,848</u>	<u>\$ (12,554)</u>	<u>\$ 12,885</u>	<u>\$ (47,529)</u>	<u>\$ 114,420</u>	<u>\$ 135,826</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**Net Assets**  
**Major Component Units - Discretely Presented Business-type**  
**June 30, 2010**  
(in thousands)

	<b>Houston Convention Center Hotel Corp.</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Inc.</b>	<b>Total</b>
Cash, receivable and other current assets	\$ 68,399	\$ 29,446	\$ 39,444	\$ 137,289
Noncurrent assets	1,834	10,406	-	12,240
Capital assets, net of accumulated depreciation	221,600	2,765	42,656	267,021
Total assets	<u>291,833</u>	<u>42,617</u>	<u>82,100</u>	<u>416,550</u>
Current liabilities	22,827	71	1,889	24,787
Long-term liabilities	274,389	29	-	274,418
Total liabilities	<u>297,216</u>	<u>100</u>	<u>1,889</u>	<u>299,205</u>
Net assets				
Invested in capital assets, net of related debt	(35,453)	-	-	(35,453)
Restricted	7,952	32	44,471	52,455
Unrestricted (deficit)	22,118	42,485	35,740	100,343
Total net assets (deficit)	<u>\$ (5,383)</u>	<u>\$ 42,517</u>	<u>\$ 80,211</u>	<u>\$ 117,345</u>



**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

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**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**Change in Net Assets**  
**Major Component Units - Discretely Presented Business-type**  
**For the Year Ended June 30, 2010**  
(in thousands)

<u>Component Units</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Houston Convention Center Hotel Corp.	\$ 66,118	\$ 65,710	\$ -
Houston Housing Finance Corp.	1,898	483	-
Houston Zoo Inc.	24,641	24,131	6,546
Totals	<u>\$ 92,657</u>	<u>\$ 90,324</u>	<u>\$ 6,546</u>

**General Revenues:**

**Taxes**

Property Taxes levied for general purposes

Unrestricted investment earnings

Other

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

Change in net assets

Net assets (deficit) beginning

New Component Unit & Restatement

Net assets (deficit) ending

Continued

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

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

<b>Houston Convention Center Hotel Corp.</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Inc.</b>	<b>Total</b>
\$ (408)	\$ -	\$ -	\$ (408)
-	(1,415)	-	(1,415)
-	-	6,036	6,036
<u>\$ (408)</u>	<u>\$ (1,415)</u>	<u>\$ 6,036</u>	<u>\$ 4,213</u>
\$ -	\$ 750	\$ 0	\$ 750
772	1,314	387	2,473
8,175	-	-	8,175
<u>8,947</u>	<u>2,064</u>	<u>387</u>	<u>11,398</u>
8,539	649	6,423	15,611
(13,922)	41,868	73,788	101,734
-	-	-	-
<u>\$ (5,383)</u>	<u>\$ 42,517</u>	<u>\$ 80,211</u>	<u>\$ 117,345</u>

**CITY OF HOUSTON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 17: Subsequent Events**

**A. Tax and Revenue Anticipation Notes**

On July 1, 2010, the City closed the sale of \$230,000,000 Tax and Revenue Anticipation Notes ("TRANS"), Series 2010. The proceeds of the TRANS will be used to pay working capital expenditures until tax revenues are received in early 2011. The stated interest rate was 2.0%, and the average yield was 0.37%. The notes will mature on June 30, 2011.

**B. Combined Utility System Revenue and Refunding Bonds**

On September 1, 2010 the City issued \$212,040,000 of Combined Utility System First Lien Revenue and Refunding Bonds, at rates ranging from 2.0 to 5.0%. The true interest cost was 2.39%. The bonds mature in varying amounts from 2011 to 2019. Proceeds were used to refund \$256,095,000 of Jr. Lien Water & Sewer bonds. Net present value savings totaled \$23.9 million or 9.34% of the refunded bonds.

**C. November 2, 2010 Election**

On November 2, 2010, City of Houston voters approved two propositions that were on the ballot. One established a dedicated fund for drainage and street repairs. The other discontinues the use of red-light cameras within the City.

**D. Public Improvement Refunding Bonds**

On November 16, 2010 the City sold \$312,295,000 in Public Improvement Refunding Bonds, Series 2010A and \$191,395,000 in Taxable Public Improvement Refunding Bonds, Taxable Series 2009B-Direct Subsidy Build America Bonds ("the PIBS 2010B Bonds") at coupons ranging from 3.2% to 3.9%. The bonds mature in varying amounts from 2011 through 2030 with coupons ranging from 1% to 6.319%. The true interest cost for the 2010A bonds was 3.2% and 3.9% for 2010B bonds. Proceeds were used to refund \$312,000,000 of General Obligation Commercial Paper Series E1, G, H1 and H2 ("the Commercial Paper Notes"); to refund \$215,440,000 of Public Improvement Refunding Bonds, Series 2000, 2001A, 2001B, 2002, 2003A-1 and 2004B; and costs of issuance. The net present value savings on the refunded bonds was \$19,047,453 or 8.8%. Because the refunded Commercial Paper Notes paid interest at varying rates depending on current market conditions, cash flow and net present value savings cannot be computed.

**Required Supplementary Information - (unaudited)**

**CITY OF HOUSTON, TEXAS  
GENERAL OPERATING FUND  
Schedule of Budgeted and Actual Revenues and Expenditures  
For the Year Ended June 30, 2010  
amounts expressed in thousands  
(unaudited)**

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Taxes and assessments				
Property Taxes	\$ 909,715	\$ 909,715	\$ 892,865	\$ (16,850)
Industrial Assessments	26,880	26,880	15,817	(11,063)
Sales Tax	507,300	507,300	468,965	(38,335)
Franchise Tax	186,277	186,277	190,868	4,591
Mixed Beverage Tax	10,576	10,576	10,382	(194)
Bingo Tax	207	207	195	(12)
<b>Total taxes and assessments</b>	<u>1,640,955</u>	<u>1,640,955</u>	<u>1,579,092</u>	<u>(61,863)</u>
Licenses and permits				
General	9,764	9,764	11,631	1,867
Health Permits	6,353	6,353	7,005	652
<b>Total licenses and permits</b>	<u>16,117</u>	<u>16,117</u>	<u>18,636</u>	<u>2,519</u>
Charges for services				
Ambulance service	23,250	23,250	21,639	(1,611)
Parking	215	215	260	45
Services performed for other funds				
Direct	48,489	48,477	46,906	(1,571)
Indirect	15,401	15,401	16,012	611
Rents and royalties	1,291	1,291	1,565	274
Others	9,429	9,429	10,692	1,263
<b>Total charges for services</b>	<u>98,075</u>	<u>98,063</u>	<u>97,074</u>	<u>(989)</u>
Intergovernmental - grants	<u>32,476</u>	<u>32,476</u>	<u>32,148</u>	<u>(328)</u>
Fines and forfeits				
Municipal Courts	35,497	35,497	38,096	2,599
Others	2,391	2,391	2,029	(362)
<b>Total fines and forfeits</b>	<u>37,888</u>	<u>37,888</u>	<u>40,125</u>	<u>2,237</u>
Interest	<u>9,200</u>	<u>9,200</u>	<u>6,355</u>	<u>(2,845)</u>
Other				
Sale of Property	606	606	555	(51)
Other	8,464	8,464	7,660	(804)
Total Other	<u>9,070</u>	<u>9,070</u>	<u>8,215</u>	<u>(855)</u>
<b>Total revenues</b>	<u>1,843,781</u>	<u>1,843,769</u>	<u>1,781,645</u>	<u>(62,124)</u>
<b>Other financing sources (uses)</b>				
Transfers in	16,074	16,074	38,658	22,584
Sale of capital assets	3,450	3,450	6,548	3,098
Other financing sources (uses)	20,000	20,000	20,000	-
<b>Total other financing sources (uses)</b>	<u>39,524</u>	<u>39,524</u>	<u>65,206</u>	<u>25,682</u>
<b>Total revenues and other financing source</b>	<u>\$ 1,883,305</u>	<u>\$ 1,883,293</u>	<u>\$ 1,846,851</u>	<u>\$ (36,442)</u>

\* See note to Required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*  
*(unaudited)*

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
<b>General government</b>				
Legislative and executive				
Legislative - Council				
Personnel services	5,159	5,084	4,844	240
Other current expenditures	154	225	228	(3)
Equipment acquisition	-	22	21	1
Total legislative - council	<u>5,313</u>	<u>5,331</u>	<u>5,093</u>	<u>238</u>
Legislative - Mayor's Office				
Personnel services	2,827	2,759	2,731	28
Other current expenditures	169	153	146	7
Total executive - mayor's office	<u>2,996</u>	<u>2,912</u>	<u>2,877</u>	<u>35</u>
<b>Total legislative and executive</b>	<u>8,309</u>	<u>8,243</u>	<u>7,970</u>	<u>273</u>
Affirmative Action				
Personnel services	2,381	2,345	2,312	33
Other current expenditures	162	163	125	38
Equipment acquisition	-	-	12	(12)
<b>Total affirmative action</b>	<u>2,543</u>	<u>2,508</u>	<u>2,449</u>	<u>59</u>
Judicial				
Municipal Courts Judges				
Personnel services	5,072	4,952	4,984	(32)
Other current expenditures	443	497	389	108
Total municipal court judges	<u>5,515</u>	<u>5,449</u>	<u>5,373</u>	<u>76</u>
Municipal Courts Administration				
Personnel services	14,891	14,477	13,895	582
Other current expenditures	2,974	3,240	3,338	(98)
Equipment acquisition	83	63	14	49
Total municipal court administration	<u>17,948</u>	<u>17,780</u>	<u>17,247</u>	<u>533</u>
<b>Total judicial</b>	<u>23,463</u>	<u>23,229</u>	<u>22,620</u>	<u>609</u>
Elections	2,000	2,450	2,532	(82)
Finance administration				
Controller				
Personnel services	6,415	6,387	6,348	39
Other current expenditures	1,270	1,202	767	435
Total controller	<u>7,685</u>	<u>7,589</u>	<u>7,115</u>	<u>474</u>
Finance				
Personnel services	7,115	7,038	6,692	346
Other current expenditures	3,689	3,667	3,207	460
Equipment acquisition	-	9	9	-
Total finance	<u>10,804</u>	<u>10,714</u>	<u>9,908</u>	<u>806</u>
Administrative and Regulatory Affairs				
Personnel services	20,836	26,199	25,786	413
Other current expenditures	3,320	4,781	4,747	34
Equipment acquisition	10	22	29	(7)
Total administrative and regulatory affairs	<u>24,166</u>	<u>31,002</u>	<u>30,562</u>	<u>440</u>
Information Technology				
Personnel services	14,952	15,482	15,801	(319)
Other current expenditures	2,871	3,571	3,240	331
Equipment acquisition	60	18	18	-
Total information technology	<u>17,883</u>	<u>19,071</u>	<u>19,059</u>	<u>12</u>
Audits	107	-	-	-
Bond and Legal	1,285	2,285	2,799	(514)
<b>Total finance administration</b>	<u>61,930</u>	<u>70,661</u>	<u>69,443</u>	<u>1,218</u>

\*See note to required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*  
*(unaudited)*

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Legal				
Personnel services	15,761	15,118	14,944	174
Other current expenditures	1,531	1,695	1,358	337
<b>Total legal</b>	<b>17,292</b>	<b>16,813</b>	<b>16,302</b>	<b>511</b>
City Secretary				
Personnel services	642	642	603	39
Other current expenditures	109	109	82	27
<b>Total city secretary</b>	<b>751</b>	<b>751</b>	<b>685</b>	<b>66</b>
Planning and Development				
Personnel services	8,193	7,870	7,841	29
Other current expenditures	1,266	1,274	1,137	137
Equipment acquisition	-	3	3	-
<b>Total planning and development</b>	<b>9,459</b>	<b>9,147</b>	<b>8,981</b>	<b>166</b>
Human Resources				
Personnel services	2,745	2,694	2,756	(62)
Other current expenditures	552	526	417	109
<b>Total human resources</b>	<b>3,297</b>	<b>3,220</b>	<b>3,173</b>	<b>47</b>
<b>Total general government</b>	<b>129,044</b>	<b>137,022</b>	<b>134,155</b>	<b>2,867</b>
Public safety				
Police				
Personnel services	632,655	617,398	617,162	236
Other current expenditures	35,331	40,679	38,367	2,312
Equipment acquisition	148	832	833	(1)
<b>Total police</b>	<b>668,134</b>	<b>658,909</b>	<b>656,362</b>	<b>2,547</b>
Fire				
Personnel services	403,209	402,036	408,615	(6,579)
Other current expenditures	24,900	24,326	22,201	2,125
Equipment acquisition	-	8	7	1
<b>Total fire</b>	<b>428,109</b>	<b>426,370</b>	<b>430,823</b>	<b>(4,453)</b>
<b>Total public safety</b>	<b>1,096,243</b>	<b>1,085,279</b>	<b>1,087,185</b>	<b>(1,906)</b>
Public Works				
Administration				
Personnel services	29,342	28,168	28,181	(13)
Other current expenditures	56,592	57,115	56,037	1,078
Equipment acquisition	38	50	12	38
<b>Total administration</b>	<b>85,972</b>	<b>85,333</b>	<b>84,230</b>	<b>1,103</b>
General Services				
Personnel services	13,583	13,160	13,788	(628)
Other current expenditures	34,113	32,953	33,665	(712)
Equipment acquisition	-	49	39	10
<b>Total general services</b>	<b>47,696</b>	<b>46,162</b>	<b>47,492</b>	<b>(1,330)</b>

\*See note to required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**GENERAL OPERATING FUND**  
**Schedule of Budgeted and Actual Revenues and Expenditures**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*  
*(unaudited)*

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Solid Waste				
Personnel services	35,224	34,012	33,397	615
Other current expenditures	33,390	32,437	31,342	1,095
Equipment acquisition	-	659	605	54
Total solid waste	68,614	67,108	65,344	1,764
<b>Total public works</b>	202,282	198,603	197,066	1,537
Health				
Personnel services	48,043	41,483	41,570	(87)
Other current expenditures	8,245	7,018	6,553	465
Equipment acquisition	-	99	143	(44)
<b>Total health</b>	56,288	48,600	48,266	334
Housing				
Personnel services	609	609	692	(83)
Other current expenditures	250	240	140	100
<b>Total housing</b>	859	849	832	17
Parks and Recreation				
Personnel services	43,091	40,408	40,673	(265)
Other current expenditures	25,438	24,879	26,171	(1,292)
<b>Total parks and recreation</b>	68,529	65,287	66,844	(1,557)
Library				
Personnel services	28,250	26,539	26,467	72
Other current expenditures	4,819	4,583	4,480	103
Equipment acquisition	6,253	6,217	6,268	(51)
<b>Total library</b>	39,322	37,339	37,215	124
Retiree Benefits				
Hospital and life insurance	18,584	18,694	18,897	(203)
<b>Total retiree benefits</b>	18,584	18,694	18,897	(203)
<b>Other current expenditures</b>				
Tax appraisal fees	8,196	7,890	7,890	-
Limited-purpose Annexation Districts	32,150	28,150	29,125	(975)
Contingency	3,100	1,479		1,479
Claims and judgments	7,500	7,500	8,071	(571)
Membership dues	760	760	730	30
Advertising and promotion	225	225	215	10
Management Initiative Savings	(10,000)	-	-	-
Consultants	886	1,160	1,008	152
Miscellaneous support services	7,333	8,014	8,040	(26)
<b>Total other current expenditures</b>	50,150	55,178	55,079	99
<b>Debt service</b>				
Debt service interest	2,500	1,000	878	122
<b>Total debt service</b>	2,500	1,000	878	122
<b>Total expenditures</b>	1,663,801	1,647,851	1,646,417	1,434
<b>Other financing sources (uses)</b>				
Transfers out	270,195	270,322	269,970	352
<b>Total other financing sources (uses)</b>	270,195	270,322	269,970	352
<b>Total expenditures and other financing v</b>	\$ 1,933,996	\$ 1,918,173	\$ 1,916,387	\$ 1,786

\*See note to required Supplementary Information\*



**CITY OF HOUSTON, TEXAS**  
**REQUIRED RECONCILIATION FOR GENERAL FUND**  
**BUDGET vs. GAAP PRESENTATION**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*  
*(unaudited)*

**Revenues**

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 1,781,645
Revenues of non-budgeted funds	
Equipment Acquisition	3,583
Building Security	1,005
Grant Matching Fund	28
Vehicle Maintenance	79
Total revenues of non-budgeted funds	<u>4,695</u>
Interest on pooled investments from non-budgeted revenues	91
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>1,786,431</u></u>

**Expenditures**

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 1,646,417
Expenditures of non-budgeted funds	
Equipment Acquisition	107,931
Building Security	1,045
Special non-recurring	464
Fleet Maintenance	172
Grant Matching Fund	52
Total expenditures of non-budgeted funds	<u>109,664</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>1,756,081</u></u>

**Other financing sources (uses)**

Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ (204,764)
Proceeds from Issuance of Debt	104,078
Sale of assets	1,208
Transfers of non budgeted funds	(10,797)
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances--governmental funds	<u><u>\$ (110,275)</u></u>

\*See note to Required Supplementary Information\*

**CITY OF HOUSTON, TEXAS**  
**REQUIRED NOTES TO THE SUPPLEMENTARY INFORMATION**  
**June 30, 2010**  
*(Unaudited)*

**1. General Budget Policies**

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

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

On April 1, 2009, City Council approved the Fiscal Year 2009 general appropriation ordinance in the amount of \$1.918 billion for the General Fund.

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

The following provides actual fiscal year 2010 results for both budgeted and non-budgeted Special Revenue Funds (in thousands):

	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Sources (Uses)</b>
Budgeted Special Revenue Funds	\$ 116,061	\$ 172,642	\$ 34,014
Non-budgeted Disaster Recovery Fund	1,048	-	-
Non-budgeted Grants Revenue Fund	297,743	258,832	(4,349)
Non-budgeted Health and Housing	3,748	4,579	150
Non-budgeted Other Funds	18,051	22,333	(846)
Total Special Revenue Funds - Actual	<u>\$ 436,651</u>	<u>\$ 458,386</u>	<u>\$ 28,969</u>

**2. General Fund Budgetary Highlights**

Revenues were \$62 million below budget. This decline was mainly evident in taxes and assessments. In addition, increases in licenses and permits (\$2.5 million) and fines and forfeits (\$2.3 million), were offset by a decrease in interest income (\$2.8 million).

Significant differences between budgeted and actual taxes and assessments include:

- \$19 million decrease in property tax
- \$11 million decrease in industrial assessment
- \$38 million decrease in sales tax
- \$5 million increase in franchise tax

Total expenditures were \$1.4 million below budget, with a \$3 million decrease in general government, a \$2 million increase in public safety and a \$1.5 million decrease in public works. Whereas the Police Department was \$2.5 million below budget, the Fire Department was \$4.5 million above budget.

**CITY OF HOUSTON, TEXAS  
REQUIRED PENSION SYSTEM  
SUPPLEMENTARY INFORMATION  
June 30, 2010  
(unaudited)**

**Houston Firefighters' Pension System Supplementary Information (unaudited)  
Schedule of Funding Progress (in millions)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 2004	\$2,000.3	\$2,266.8	\$266.5	88%	\$181.5	147%
July 1, 2005	\$2,119.2	\$2,461.1	\$341.9	86%	\$192.1	178%
July 1, 2006	\$2,325.0	\$2,670.9	\$345.9	87%	\$218.7	158%
July 1, 2007	\$2,633.6	\$2,892.3	\$258.7	91%	\$232.4	111%
July 1, 2008	\$2,945.1	\$3,080.5	\$135.4	96%	\$239.2	57%
July 1, 2009	\$3,062.2	\$3,209.7	\$147.5	95%	\$258.9	57%

**Houston Municipal Pension System Supplementary Information (unaudited)  
Schedule of Funding Progress (in millions)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 2004	\$1,501.2	\$2,633.8	\$1,132.6	57%	\$366.1	309%
July 1, 2005	\$1,777.7	\$2,725.3	\$947.6	65%	\$404.6	234%
July 1, 2006	\$1,867.3	\$2,894.3	\$1,027.0	65%	\$422.5	243%
July 1, 2007	\$2,193.7	\$3,128.7	\$935.0	70%	\$448.9	208%
July 1, 2008	\$2,310.4	\$3,296.4	\$986.0	70%	\$483.8	204%
July 1, 2009	\$2,284.4	\$3,451.4	\$1,167.0	66%	\$539.0	217%

**Houston Police Officers' Pension System Supplementary Information (unaudited)  
Schedule of Funding Progress (in millions)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 2003	\$2,394.4	\$2,874.7	\$480.3	83%	\$300.4	160%
July 1, 2004	\$2,466.0	\$3,339.2	\$873.2	74%	\$329.8	265%
July 1, 2005*	\$2,508.8	\$3,393.0	\$884.2	74%	\$321.1	275%
July 1, 2007	\$3,004.9	\$3,857.7	\$852.8	78%	\$336.0	254%
July 1, 2008	\$3,337.6	\$4,079.0	\$741.4	82%	\$351.5	211%
July 1, 2009	\$3,430.9	\$4,368.5	\$937.6	79%	\$366.9	256%

\* No actuarial study was required or conducted for July 1, 2006.

**CITY OF HOUSTON, TEXAS**  
**REQUIRED OTHER POST EMPLOYMENT BENEFITS**  
**SUPPLEMENTARY INFORMATION**  
**June 30, 2010**  
*(unaudited)*

**Houston Other Post Employment Benefits Supplementary Information (unaudited)**  
**Schedule of Funding Progress *(in millions)***

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (Surplus UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Projected Annual Covered Payroll (c)</b>	<b>UAAL as Percentage of Covered Payroll ((b-a)/c)</b>
June 30, 2006	\$0	\$3,238	\$3,238	0%	\$1,090.1	297%
June 30, 2008	\$0	\$3,096	\$3,096	0%	\$1,136.5	272%
June 30, 2009	\$0	\$3,031	\$3,031	0%	\$1,193.5	254%

# Governmental Funds

**General Fund** - The General Fund is used to account for sources and uses of financial resources applicable to the general government operation of the City. All general operating revenues and expenditures that are not restricted and, therefore, accounted for in another fund, are recorded in the General Fund.

**Debt Service Fund** - The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt other than debt issued for and serviced by Enterprise Funds.

**Capital Projects Fund** - The Capital Projects Fund accounts for all resources used for the acquisition and/or construction of capital facilities by the City, except those financed by Enterprise Funds.

**Grants Fund** - The Grants Fund is used to account for grant resources received from various local, state and national agencies and organizations. The use of these resources is restricted to a particular function of the city by the grantor.

**Nonmajor Funds** - Nonmajor Funds did not meet the established criteria for major fund status. They are used to account for the proceeds of specific revenue sources (other than capital projects) that are restricted to expenditures for special purposes. All Nonmajor Funds have been presented; however only certain sub-funds have legally adopted budgets. Nonmajor funds are:

- Public Safety Special Fund
  - Budgeted: Asset Forfeiture, Auto Dealers, Police Special Services and Houston Emergency Center, Municipal Courts Technology Fee and Child Safety
  - Not budgeted: Helmets for Bicycle Safety
- Public Works Special Fund
  - Budgeted: Building Inspection, Sign Administration, and Stormwater
  - Not budgeted: Sign Abatement and Street Maintenance and Traffic Control
- Health and Housing Special Fund
  - Not budgeted: Health Special, Housing Special, Homeless Families Program and Housing Replacement Insurance, Housing Non-Grant Venture and HJTFC Self Insurance
- Parks & Recreation Special Fund
  - Budgeted: Parks Special
  - Not budgeted: MacGregor Parks Endowment
- Other Special Revenue Fund
  - Budgeted: Cable Television, Houston Transtar and Supplemental Environmental Project
  - Not budgeted: Disaster Recovery, Compaq Center, MNC Memorial City Way, W.A.T.E.R., Special City Deposit, John Battaglia Trust, Inc. Fund, AAA Contingency, Houston Foundation and March of Dimes

**CITY OF HOUSTON, TEXAS**  
**GENERAL FUND**  
**Balance Sheet**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 182,675	\$ 238,999
Receivables, net of allowances		
Accounts receivable	30,734	26,599
Property taxes receivable, net	44,225	46,188
Sales taxes receivable	83,073	82,245
Mixed beverage taxes receivable	2,913	2,796
Franchise taxes receivable	17,531	17,009
Special assessments receivable	12,207	21,041
Due from other funds	12,806	28,480
Due from other governments	2,917	3,752
Inventory	20,875	20,685
Prepaid items	2,021	2,039
Total assets	\$ 411,977	\$ 489,833
<b>Liabilities and fund balance</b>		
<b>Liabilities</b>		
Accounts payable	43,005	48,899
Accrued payroll liabilities	60,243	57,286
Due to other funds	3,089	1,637
Due to other governments	588	785
Advances and deposits	10,001	9,319
Claims and judgments	1,697	1,827
Compensated absences	4,023	2,613
Unearned revenue	65,309	63,520
Total liabilities	187,955	185,886
<b>Fund balance</b>		
Reserved for imprest cash and prepaids	2,128	2,151
Reserved for inventory	20,875	20,685
Designated - Rainy day fund	20,001	20,001
Undesignated	181,018	261,110
Total fund balance	224,022	303,947
Total liabilities and fund balance	\$ 411,977	\$ 489,833

**CITY OF HOUSTON, TEXAS**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
Taxes and assessments		
Property Taxes	\$ 892,865	\$ 890,088
Industrial Assessments	15,817	19,133
Sales Tax	468,965	507,103
Franchise Tax	190,868	190,322
Mixed Beverage Tax	10,382	10,587
Bingo Tax	195	226
Licenses and permits	18,636	17,511
Charges for services	97,074	96,824
Intergovernmental - grants	32,176	33,972
Fines and forfeits	40,124	40,385
Investment income	6,446	12,913
Other	12,883	27,716
Total revenues	<u>1,786,431</u>	<u>1,846,780</u>
<b>Expenditures</b>		
Current		
General government	157,635	143,323
Public safety	1,111,044	1,094,845
Public works	206,047	215,468
Health	48,266	56,293
Housing and Community Development	832	298
Parks and recreation	66,928	69,595
Library	37,215	37,625
Retiree benefits	18,897	18,463
Capital outlay	108,339	81,478
Debt service principal	-	1,489
Debt service interest	878	1,497
Total expenditures	<u>1,756,081</u>	<u>1,720,374</u>
<b>Other financing sources (uses)</b>		
Proceeds from issuance of debt	124,078	87,500
Sale of capital assets	7,756	4,798
Transfers in	43,495	36,012
Transfers out	(285,604)	(282,275)
Total other financing sources (uses)	<u>(110,275)</u>	<u>(153,965)</u>
Change in fund balance	(79,925)	(27,559)
Fund balances, July 1	<u>303,947</u>	<u>331,506</u>
Fund balances, June 30	<u>\$ 224,022</u>	<u>\$ 303,947</u>

**CITY OF HOUSTON, TEXAS**  
**DEBT SERVICE FUND**  
**Balance Sheet**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 182,188	\$ 161,903
Due from component units	5,488	5,310
Due from other funds	-	19
<b>Total assets</b>	<b>\$ 187,676</b>	<b>\$ 167,232</b>
 <b>Liabilities and fund balance</b>		
Liabilities		
Accounts payable	\$ 230	\$ 508
Unearned revenue	5,488	5,310
Total liabilities	5,718	5,818
 Fund balance		
Reserved for debt service	181,958	161,414
Total fund balance	181,958	161,414
Total liabilities and fund balance	<b>\$ 187,676</b>	<b>\$ 167,232</b>



**CITY OF HOUSTON, TEXAS**  
**DEBT SERVICE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget vs. Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ 9,682	\$ 9,682	\$ 4,164	\$ (5,518)	\$ 6,847
Other	-	-	732	732	834
Total revenues	<u>9,682</u>	<u>9,682</u>	<u>4,896</u>	<u>(4,786)</u>	<u>7,681</u>
<b>Expenditures</b>					
Debt service principal	183,722	186,300	186,251	49	486,180
Debt service interest	145,197	146,200	146,108	92	131,791
Debt service fiscal agent & fees	7,000	7,000	6,599	401	8,949
Total expenditures	<u>335,919</u>	<u>339,500</u>	<u>338,958</u>	<u>542</u>	<u>626,920</u>
<b>Other financing sources (uses)</b>					
Net proceeds from issuance of debt	-	-	522,780	522,780	321,350
Discount on long-term debt	-	-	34,166	34,166	(327)
Proceeds from refunded debt	-	-	-	-	324,030
Transfers in	344,858	344,858	350,890	6,032	360,008
Payment to escrow agent for refunded bonds	-	-	(553,230)	(553,230)	(355,885)
Total other financing sources (uses)	<u>344,858</u>	<u>344,858</u>	<u>354,606</u>	<u>9,748</u>	<u>649,176</u>
Change in fund balance	18,621	15,040	20,544	5,504	29,937
Fund balances, July 1	-	-	161,414	161,414	131,477
Fund balances, June 30	<u>\$ 18,621</u>	<u>\$ 15,040</u>	<u>\$ 181,958</u>	<u>\$ 166,918</u>	<u>\$ 161,414</u>

**CITY OF HOUSTON, TEXAS**  
**CAPITAL PROJECTS FUND**  
**Balance Sheet**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 110,021	\$ 67,287
Due from other funds	844	10,000
Due from other governments	33,026	15,569
Prepaid items - Construction materials	230	276
Total assets	\$ 144,121	\$ 93,132
 <b>Liabilities and fund balance</b>		
<b>Liabilities</b>		
Accounts payable	36,787	42,134
Due to other funds	132	2,132
Advances and deposits	31	339
Unearned revenue	60,728	10,300
Total liabilities	97,678	54,905
 <b>Fund balance</b>		
Reserved for prepaids	230	276
Reserved fund balance	46,213	37,951
Total fund balance	46,443	38,227
Total liabilities and fund balance	\$ 144,121	\$ 93,132

**CITY OF HOUSTON, TEXAS**  
**CAPITAL PROJECTS FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
Intergovernmental - grants	\$ 58,762	\$ 44,560
Investment income	2,568	2,990
Other	<u>7,456</u>	<u>7,319</u>
Total revenues	<u>68,786</u>	<u>54,869</u>
<b>Expenditures</b>		
Current		
Capital outlay	<u>274,778</u>	<u>262,843</u>
Total expenditures	<u>274,778</u>	<u>262,843</u>
<b>Other financing sources (uses)</b>		
Proceeds from issuance of debt	279,922	217,355
Transfers in	-	4,901
Transfers out	<u>(65,714)</u>	<u>(76,398)</u>
Total other financing sources (uses)	<u>214,208</u>	<u>145,858</u>
Change in fund balance	8,216	(62,116)
Fund balances, July 1	<u>38,227</u>	<u>100,343</u>
Fund balances, June 30	<u>\$ 46,443</u>	<u>\$ 38,227</u>

**CITY OF HOUSTON, TEXAS**  
**GRANTS FUND**  
**Balance Sheet**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Cash		
Equity in pooled cash and investments	\$ 32,973	\$ 31,101
Receivables, net of allowances		
Accounts receivable	11,731	14,940
Due from other funds	2,409	8,294
Due from component units	2,914	3,395
Due from other governments	82,852	79,556
Inventory	1,802	1,681
Total assets	134,681	138,967
 <b>Liabilities and fund balance</b>		
<b>Liabilities</b>		
Accounts payable	32,601	38,358
Accrued payroll liabilities	2,297	2,134
Due to other funds	27,891	41,422
Due to other governments	1,131	3,568
Advances and deposits	180	588
Compensated absences	12	8
Unearned revenue	44,088	60,970
Total liabilities	108,200	147,048
 <b>Fund balance</b>		
Reserved for inventory	1,802	1,681
Reserved for debt service	5,483	-
Unreserved	19,196	(9,762)
Total fund balance	26,481	(8,081)
 Total liabilities and fund balance	\$ 134,681	\$ 138,967

**CITY OF HOUSTON, TEXAS**  
**GRANTS FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
Intergovernmental - grants	\$ 296,466	\$ 326,128
Contributions	20	737
Investment income	1,257	1,283
Total revenues	<u>297,743</u>	<u>328,148</u>
<b>Expenditures</b>		
Current		
General government	17,146	12,515
Public safety	55,007	63,026
Public works	5,916	116,724
Health	75,221	64,588
Housing and Community Development	99,053	78,295
Parks and recreation	4,993	3,946
Library	1,496	1,623
Total expenditures	<u>258,832</u>	<u>340,717</u>
<b>Other financing sources (uses)</b>		
Transfers out	(4,349)	(6,301)
Total other financing sources (uses)	<u>(4,349)</u>	<u>(6,301)</u>
Change in fund balance	34,562	(18,870)
Fund balances, July 1	<u>(8,081)</u>	<u>10,789</u>
Fund balances, June 30	<u>\$ 26,481</u>	<u>\$ (8,081)</u>

**CITY OF HOUSTON, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Combining Balance Sheet**  
**June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<i>Nonmajor Funds</i>		
	<b>Public Safety Special Fund</b>	<b>Public Works Special Fund</b>	<b>Health &amp; Housing Special Fund</b>
<b>Assets</b>			
Equity in pooled cash and investments	\$ 22,806	\$ 22,079	\$ 5,993
Receivables, net of allowances			
Accounts receivable	17,165	96	-
Due from other funds	170	246	-
Due from other governments	2,220	150	-
Inventory	-	257	-
Prepaid items	-	-	-
Total assets	<u>\$ 42,361</u>	<u>\$ 22,828</u>	<u>\$ 5,993</u>
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 3,612	\$ 754	\$ 423
Accrued payroll liabilities	1,691	2,477	56
Due to other funds	961	-	5
Due to other governments	5,329	-	-
Advances and deposits	1,041	716	-
Compensated absences	2	182	-
Other liabilities	-	-	-
Unearned revenue	15,127	1,200	-
Total liabilities	<u>27,763</u>	<u>5,329</u>	<u>484</u>
<b>Fund balance</b>			
Reserved for Imprest cash and prepaids	-	-	-
Reserved for inventory	-	257	-
Undesignated	<u>14,598</u>	<u>17,242</u>	<u>5,509</u>
Total fund balance	<u>14,598</u>	<u>17,499</u>	<u>5,509</u>
Total liabilities and fund balance	<u>\$ 42,361</u>	<u>\$ 22,828</u>	<u>\$ 5,993</u>

(Continued)

***Nonmajor Funds***

<b>Parks &amp; Recreation Special Fund</b>	<b>Other Special Revenue Fund</b>	<b>2010</b>	<b>2009</b>
\$ 5,135	\$ 42,967	\$ 98,980	\$ 124,669
442	1,325	19,028	15,721
3	1	420	772
-	-	2,370	3,620
6	-	263	12
-	1,163	1,163	-
<u>\$ 5,586</u>	<u>\$ 45,456</u>	<u>\$ 122,224</u>	<u>\$ 144,794</u>
\$ 542	\$ 1,816	\$ 7,147	\$ 8,431
181	71	4,476	3,621
-	-	966	2,332
13	917	6,259	6,082
55	307	2,119	1,899
-	-	184	16
-	11	11	103
147	449	16,923	10,844
<u>938</u>	<u>3,571</u>	<u>38,085</u>	<u>33,328</u>
-	1,163	1,163	-
6	-	263	12
<u>4,642</u>	<u>40,722</u>	<u>82,713</u>	<u>111,454</u>
<u>4,648</u>	<u>41,885</u>	<u>84,139</u>	<u>111,466</u>
<u>\$ 5,586</u>	<u>\$ 45,456</u>	<u>\$ 122,224</u>	<u>\$ 144,794</u>

**CITY OF HOUSTON, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<i>Nonmajor Funds</i>		
	<b>Public Safety Special Fund</b>	<b>Public Works Special Fund</b>	<b>Health &amp; Housing Special Fund</b>
<b>Revenues</b>			
Franchise Tax	\$ -	\$ 424	\$ -
Licenses and permits	7,259	27,478	1,702
Charges for services	11,175	8,315	899
Intergovernmental - grants	13,630	-	-
Fines and forfeits	19,902	10	-
Investment income	566	413	114
Other	11,977	467	1,033
Total revenues	<u>64,509</u>	<u>37,107</u>	<u>3,748</u>
<b>Expenditures</b>			
Current			
General government	-	-	-
Public safety	78,112	-	-
Public works	-	73,554	-
Health	-	-	3,481
Housing and community development	-	-	827
Parks and recreation	-	-	-
Capital outlay	2,786	4,677	271
Debt service principal	-	-	-
Total expenditures	<u>80,898</u>	<u>78,231</u>	<u>4,579</u>
<b>Other financing sources (uses)</b>			
Sale of capital assets	-	1,336	-
Transfers in	11,978	30,395	150
Transfers out	(3,499)	(4,861)	-
Total other financing sources (uses)	<u>8,479</u>	<u>26,870</u>	<u>150</u>
Change in fund balance	(7,910)	(14,254)	(681)
Fund balances, July 1	<u>22,508</u>	<u>31,753</u>	<u>6,190</u>
Fund balances, June 30	<u>\$ 14,598</u>	<u>\$ 17,499</u>	<u>\$ 5,509</u>

(Continued)



<i>Nonmajor Funds</i>			
<b>Parks &amp; Recreation Special Fund</b>	<b>Other Special Revenue Fund</b>	<b>2010</b>	<b>2009</b>
\$ -	\$ -	\$ 424	\$ 478
200	-	36,639	40,615
6,613	714	27,716	24,594
-	2,485	16,115	31,055
-	-	19,912	16,652
127	1,018	2,238	6,054
19	21,032	34,528	26,845
<u>6,959</u>	<u>25,249</u>	<u>137,572</u>	<u>146,293</u>
-	23,022	23,022	22,226
-	-	78,112	63,842
-	-	73,554	66,314
-	-	3,481	2,540
-	-	827	622
6,796	-	6,796	6,897
295	5,731	13,760	28,151
-	-	-	21
<u>7,091</u>	<u>28,753</u>	<u>199,552</u>	<u>190,613</u>
-	-	1,336	583
-	-	42,523	61,872
-	(846)	(9,206)	(26,169)
<u>-</u>	<u>(846)</u>	<u>34,653</u>	<u>36,286</u>
(132)	(4,350)	(27,327)	(8,034)
<u>4,780</u>	<u>46,235</u>	<u>111,466</u>	<u>119,500</u>
<u>\$ 4,648</u>	<u>\$ 41,885</u>	<u>\$ 84,139</u>	<u>\$ 111,466</u>

**CITY OF HOUSTON, TEXAS**  
**ASSET FORFEITURE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Confiscations	\$ 6,434	\$ 6,434	\$ 5,740	\$ (694)	\$ 6,465
Investment income	178	178	44	(134)	251
Total revenues	<u>6,612</u>	<u>6,612</u>	<u>5,784</u>	<u>(828)</u>	<u>6,716</u>
<b>Expenditures</b>					
Current					
Public safety	7,403	7,322	5,806	1,516	6,398
Capital outlay	100	181	211	(30)	428
Total expenditures	<u>7,503</u>	<u>7,503</u>	<u>6,017</u>	<u>1,486</u>	<u>6,826</u>
<b>Other financing sources (uses)</b>					
Transfers out	(1,297)	(1,297)	(1,297)	-	(1,297)
Total other financing sources (uses)	<u>(1,297)</u>	<u>(1,297)</u>	<u>(1,297)</u>	<u>-</u>	<u>(1,297)</u>
Change in fund balance	(2,188)	(2,188)	(1,530)	658	(1,407)
Fund balances, July 1	<u>2,751</u>	<u>2,751</u>	<u>2,751</u>	<u>-</u>	<u>4,158</u>
Fund balances, June 30	<u>\$ 563</u>	<u>\$ 563</u>	<u>\$ 1,221</u>	<u>\$ 658</u>	<u>\$ 2,751</u>

**CITY OF HOUSTON, TEXAS**  
**AUTO DEALERS FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Licenses and permits	\$ 1,203	\$ 1,203	\$ 1,396	\$ 193	\$ 1,640
Charges for services	626	626	595	(31)	636
Investment income	58	58	7	(51)	70
Other	1,697	1,697	1,585	(112)	1,496
Total revenues	<u>3,584</u>	<u>3,584</u>	<u>3,583</u>	<u>(1)</u>	<u>3,842</u>
<b>Expenditures</b>					
Current					
Public safety	3,765	3,765	3,320	445	3,105
Capital outlay	-	-	-	-	11
Total expenditures	<u>3,765</u>	<u>3,765</u>	<u>3,320</u>	<u>445</u>	<u>3,116</u>
<b>Other financing sources (uses)</b>					
Transfers in	1,533	1,533	-	(1,533)	-
Transfers out	(1,095)	(177)	(593)	(416)	(1,103)
Total other financing sources (uses)	<u>438</u>	<u>1,356</u>	<u>(593)</u>	<u>(1,949)</u>	<u>(1,103)</u>
Change in fund balance	257	1,175	(330)	(1,505)	(377)
Fund balances, July 1	<u>646</u>	<u>646</u>	<u>646</u>	<u>-</u>	<u>1,023</u>
Fund balances, June 30	<u>\$ 903</u>	<u>\$ 1,821</u>	<u>\$ 316</u>	<u>\$ (1,505)</u>	<u>\$ 646</u>

**CITY OF HOUSTON, TEXAS**  
**BUILDING INSPECTION FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>		<b>Actual</b>	<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>				
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Taxes and assessments					
Franchise Tax	\$ 428	\$ 428	\$ 424	\$ (4)	\$ 478
Licenses and permits	32,757	32,757	27,478	(5,279)	33,214
Charges for services	7,507	7,507	8,315	808	6,317
Investment income	964	964	254	(710)	1,033
Other	279	279	317	38	306
Total revenues	<u>41,935</u>	<u>41,935</u>	<u>36,788</u>	<u>(5,147)</u>	<u>41,348</u>
<b>Expenditures</b>					
Current					
Public works	48,584	43,352	41,512	1,840	33,995
Capital outlay	1,399	755	1,086	(331)	13,730
Debt service principal				-	11
Total expenditures	<u>49,983</u>	<u>44,107</u>	<u>42,598</u>	<u>1,509</u>	<u>47,736</u>
<b>Other financing sources (uses)</b>					
Transfers in			3,328	3,328	5,778
Transfers out	(4,039)	(2,415)	(4,897)	2,482	(5,505)
Total other financing sources (uses)	<u>(4,039)</u>	<u>(2,415)</u>	<u>(1,569)</u>	<u>5,810</u>	<u>273</u>
Change in fund balance	(12,087)	(4,587)	(7,379)	(2,792)	(6,115)
Fund balances, July 1	<u>16,347</u>	<u>16,347</u>	<u>16,347</u>	<u>-</u>	<u>22,462</u>
Fund balances, June 30	<u>\$ 4,260</u>	<u>\$ 11,760</u>	<u>\$ 8,968</u>	<u>\$ (2,792)</u>	<u>\$ 16,347</u>

**CITY OF HOUSTON, TEXAS**  
**CABLE TELEVISION FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ 19	\$ 19	\$ 32	\$ 13	\$ 35
Other	2,863	2,863	3,398	535	2,972
Total revenues	<u>2,882</u>	<u>2,882</u>	<u>3,430</u>	<u>548</u>	<u>3,007</u>
<b>Expenditures</b>					
Current					
General government	2,924	2,887	2,658	229	2,559
Capital outlay	255	292	228	64	163
Total expenditures	<u>3,179</u>	<u>3,179</u>	<u>2,886</u>	<u>293</u>	<u>2,722</u>
Change in fund balance	(297)	(297)	544	841	285
Fund balances, July 1	<u>891</u>	<u>891</u>	<u>891</u>	<u>-</u>	<u>606</u>
Fund balances, June 30	<u>\$ 594</u>	<u>\$ 594</u>	<u>\$ 1,435</u>	<u>\$ 841</u>	<u>\$ 891</u>

**CITY OF HOUSTON, TEXAS**  
**CHILD SAFETY FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>		<b>Actual</b>	<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009</b>
	<b>Budget Amounts</b>				
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Fines and forfeits	\$ 900	\$ 2,400	\$ 2,384	\$ (16)	\$ 2,368
Interest	80	80	26	(54)	100
Other	2,400	900	796	(104)	859
Total revenues	<u>3,380</u>	<u>3,380</u>	<u>3,206</u>	<u>(174)</u>	<u>3,327</u>
<b>Expenditures</b>					
Current					
General government	3,380	3,341	3,165	176	3,506
Total expenditures	<u>3,380</u>	<u>3,341</u>	<u>3,165</u>	<u>176</u>	<u>3,506</u>
Change in fund balance	-	39	41	2	(179)
Fund balances, July 1	3	3	3	-	182
Fund balances, June 30	<u>\$ 3</u>	<u>\$ 42</u>	<u>\$ 44</u>	<u>\$ 2</u>	<u>\$ 3</u>

**CITY OF HOUSTON, TEXAS**  
**HOUSTON EMERGENCY CENTER FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	2010		Actual	Variance with Final Budget- Pos (Neg)	2009 Actual
	Budget Amounts				
	Original	Final			
<b>Revenues</b>					
Charges for services	\$ 554	\$ 554	\$ 374	\$ (180)	\$ 157
Intergovernmental - grants	11,286	11,286	10,377	(909)	9,379
Investment income			49	49	(14)
Total revenues	<u>11,840</u>	<u>11,840</u>	<u>10,800</u>	<u>(1,040)</u>	<u>9,522</u>
<b>Expenditures</b>					
Current					
Public safety	23,220	22,873	21,198	1,675	21,265
Capital outlay		154	190	(36)	125
Total expenditures	<u>23,220</u>	<u>23,027</u>	<u>21,388</u>	<u>1,639</u>	<u>21,390</u>
<b>Other financing sources (uses)</b>					
Transfers in	<u>11,380</u>	<u>11,187</u>	<u>11,187</u>	<u>-</u>	<u>11,273</u>
Total other financing sources (uses)	<u>11,380</u>	<u>11,187</u>	<u>11,187</u>	<u>-</u>	<u>11,273</u>
Change in fund balance	-	-	599	599	(595)
Fund balances, July 1	<u>(460)</u>	<u>(460)</u>	<u>(460)</u>	<u>-</u>	<u>135</u>
Fund balances, June 30	<u>\$ (460)</u>	<u>\$ (460)</u>	<u>\$ 139</u>	<u>\$ 599</u>	<u>\$ (460)</u>

**CITY OF HOUSTON, TEXAS**  
**HISTORIC PRESERVATION FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ -	\$ -	\$ 25	\$ 25	\$ 13
Other	-	-	343	343	53
Total revenues	-	-	368	368	66
<b>Expenditures</b>					
Current					
Parks and recreation	450	450	26	424	(4)
Capital outlay	-	-	-	-	-
Total expenditures	450	450	26	424	(4)
<b>Other financing sources (uses)</b>					
Transfers in	-	-	0	-	-
Transfers out	-	-	0	-	450
Total other financing sources (uses)	-	-	-	-	450
Change in fund balance	(450)	(450)	342	792	520
Fund balances, July 1	520	520	520	-	-
Fund balances, June 30	\$ 70	\$ 70	\$ 862	\$ 792	\$ 520



**CITY OF HOUSTON, TEXAS**  
**HOUSTON TRANSTAR FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Charges for services	\$ 714	\$ 714	\$ 714	\$ -	\$ 639
Intergovernmental - grants	1,560	1,560	1,560	-	1,466
Investment income	2	2	28	26	40
Other	95	95	300	205	-
Total revenues	<u>2,371</u>	<u>2,371</u>	<u>2,602</u>	<u>231</u>	<u>2,145</u>
<b>Expenditures</b>					
Current					
General government	2,382	2,616	2,385	231	2,396
Capital outlay	38	50	24	26	27
Debt service principal				-	10
Total expenditures	<u>2,420</u>	<u>2,666</u>	<u>2,409</u>	<u>257</u>	<u>2,433</u>
Change in fund balance	(49)	(295)	193	488	(288)
Fund balances, July 1	<u>435</u>	<u>435</u>	<u>435</u>	<u>-</u>	<u>723</u>
Fund balances, June 30	<u>\$ 386</u>	<u>\$ 140</u>	<u>\$ 628</u>	<u>\$ 488</u>	<u>\$ 435</u>

**CITY OF HOUSTON, TEXAS**  
**MUNICIPAL COURTS TECHNOLOGY FEE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Interest	\$ 170	\$ 170	\$ 21	\$ (149)	\$ 181
Other	1,544	1,544	1,561	17	1,568
Total revenues	<u>1,714</u>	<u>1,714</u>	<u>1,582</u>	<u>(132)</u>	<u>1,749</u>
<b>Expenditures</b>					
Current					
Public safety	2,689	2,800	2,364	436	2,608
Capital outlay	111			-	-
Total expenditures	<u>2,800</u>	<u>2,800</u>	<u>2,364</u>	<u>436</u>	<u>2,608</u>
<b>Other financing sources (uses)</b>					
Operating transfers out	750	750	750	-	(700)
Total other financing sources (uses)	<u>750</u>	<u>750</u>	<u>750</u>	<u>-</u>	<u>(700)</u>
Change in fund balance	(336)	(336)	(32)	304	(1,559)
Fund balances, July 1	<u>2,416</u>	<u>2,416</u>	<u>2,416</u>	<u>-</u>	<u>3,975</u>
Fund balances, June 30	<u>\$ 2,080</u>	<u>\$ 2,080</u>	<u>\$ 2,384</u>	<u>\$ 304</u>	<u>\$ 2,416</u>

**CITY OF HOUSTON, TEXAS**  
**PARKS SPECIAL FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Licenses and permits	\$ 162	\$ 162	\$ 200	\$ 38	\$ 178
Charges for services	7,272	7,272	6,613	(659)	7,382
Investment income	150	150	119	(31)	225
Other	61	61	19	(42)	75
Total revenues	<u>7,645</u>	<u>7,645</u>	<u>6,951</u>	<u>(694)</u>	<u>7,860</u>
<b>Expenditures</b>					
Current					
Parks and recreation	8,163	8,135	6,796	1,339	6,896
Capital outlay	322	350	295	55	359
Total expenditures	<u>8,485</u>	<u>8,485</u>	<u>7,091</u>	<u>1,394</u>	<u>7,255</u>
<b>Other financing sources (uses)</b>					
Transfers out	(425)	(425)	-	425	-
Total other financing sources (uses)	<u>(425)</u>	<u>(425)</u>	<u>-</u>	<u>425</u>	<u>-</u>
Change in fund balance	(1,265)	(1,265)	(140)	1,125	605
Fund balances, July 1	<u>4,453</u>	<u>4,453</u>	<u>4,453</u>	<u>-</u>	<u>3,848</u>
Fund balances, June 30	<u>\$ 3,188</u>	<u>\$ 3,188</u>	<u>\$ 4,313</u>	<u>\$ 1,125</u>	<u>\$ 4,453</u>

**CITY OF HOUSTON, TEXAS**  
**POLICE SPECIAL SERVICES FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Charges for services	\$ 13,898	\$ 13,898	\$ 16,958	\$ 3,060	\$ 12,532
Intergovernmental - grants	3,233	3,233	3,253	20	3,233
Investment income	200	200	233	33	481
Other	2,343	2,343	2,087	(256)	2,569
Total revenues	<u>19,674</u>	<u>19,674</u>	<u>22,531</u>	<u>2,857</u>	<u>18,815</u>
<b>Expenditures</b>					
Current					
Public safety	26,401	26,237	23,987	2,250	15,463
Capital outlay	74	238	197	41	3,862
Total expenditures	<u>26,475</u>	<u>26,475</u>	<u>24,184</u>	<u>2,291</u>	<u>19,325</u>
<b>Other financing sources (uses)</b>					
Transfers in	1,156	1,156	790	(366)	943
Transfers out	600	600		(600)	(5,912)
Total other financing sources (uses)	<u>1,756</u>	<u>1,756</u>	<u>790</u>	<u>(966)</u>	<u>(4,969)</u>
Change in fund balance	(5,045)	(5,045)	(863)	4,182	(5,479)
Fund balances, July 1	<u>9,291</u>	<u>9,291</u>	<u>9,291</u>	<u>-</u>	<u>14,770</u>
Fund balances, June 30	<u>\$ 4,246</u>	<u>\$ 4,246</u>	<u>\$ 8,428</u>	<u>\$ 4,182</u>	<u>\$ 9,291</u>

**CITY OF HOUSTON, TEXAS**  
**RECYCLING REVENUE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ 4	\$ 4	\$ 42	\$ 38	\$ 47
Other	500	500	1,053	553	654
Total revenues	<u>504</u>	<u>504</u>	<u>1,095</u>	<u>591</u>	<u>701</u>
<b>Expenditures</b>					
Current					
Parks and recreation	1,147	1,147	86	1,061	0
Capital outlay	-	75	66	9	-
Total expenditures	<u>1,147</u>	<u>1,222</u>	<u>152</u>	<u>1,070</u>	<u>-</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	-	1,000
Transfers out	(1,075)	(1,000)	(1,000)	-	-
Total other financing sources (uses)	<u>(1,075)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>	<u>1,000</u>
Change in fund balance	(1,718)	(1,718)	(57)	1,661	1,701
Fund balances, July 1	<u>1,701</u>	<u>1,701</u>	<u>1,701</u>	<u>-</u>	<u>-</u>
Fund balances, June 30	<u><u>\$ (17)</u></u>	<u><u>\$ (17)</u></u>	<u><u>\$ 1,644</u></u>	<u><u>\$ 1,661</u></u>	<u><u>\$ 1,701</u></u>

**CITY OF HOUSTON, TEXAS**  
**STORMWATER FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ 72	\$ 72	\$ (47)	\$ (119)	\$ 261
Other	70	70	100	30	59
Total revenues	<u>142</u>	<u>142</u>	<u>53</u>	<u>(89)</u>	<u>320</u>
<b>Expenditures</b>					
Current					
Public works	32,677	31,361	29,603	1,758	30,375
Capital outlay	<u>2,060</u>	<u>3,560</u>	<u>3,405</u>	<u>155</u>	<u>1,870</u>
Total expenditures	<u>34,737</u>	<u>34,921</u>	<u>33,008</u>	<u>1,913</u>	<u>32,245</u>
<b>Other financing sources (uses)</b>					
Transfers in	40,591	40,591	28,845	(11,746)	41,429
Transfers out	<u>(9,791)</u>	<u>(1,573)</u>	<u>(1,445)</u>	<u>128</u>	<u>(6,668)</u>
Total other financing sources (uses)	<u>30,800</u>	<u>39,018</u>	<u>27,400</u>	<u>(11,618)</u>	<u>34,761</u>
Change in fund balance	(3,795)	4,239	(5,555)	(9,794)	2,836
Fund balances, July 1	<u>5,707</u>	<u>5,707</u>	<u>5,707</u>	<u>-</u>	<u>2,871</u>
Fund balances, June 30	<u>\$ 1,912</u>	<u>\$ 9,946</u>	<u>\$ 152</u>	<u>\$ (9,794)</u>	<u>\$ 5,707</u>

**CITY OF HOUSTON, TEXAS**  
**SUPPLEMENTAL ENVIRONMENTAL PROJECT FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2010**  
*(With comparative totals for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>			<b>Variance with Final Budget- Pos (Neg)</b>	<b>2009 Actual</b>
	<b>Budget Amounts</b>		<b>Actual</b>		
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
Investment income	\$ 20	\$ 20	\$ 5	\$ (15)	\$ 20
Other	30	30	154	124	46
Total revenues	<u>50</u>	<u>50</u>	<u>159</u>	<u>109</u>	<u>66</u>
<b>Expenditures</b>					
Current					
General government	58	155	124	31	21
Capital outlay	327	230	173	57	49
Total expenditures	<u>385</u>	<u>385</u>	<u>297</u>	<u>88</u>	<u>70</u>
Change in fund balance	(335)	(335)	(138)	197	(4)
Fund balances, July 1	<u>417</u>	<u>417</u>	<u>417</u>	<u>-</u>	<u>421</u>
Fund balances, June 30	<u>\$ 82</u>	<u>\$ 82</u>	<u>\$ 279</u>	<u>\$ 197</u>	<u>\$ 417</u>

CITY OF HOUSTON, TEXAS





# Enterprise Funds

Enterprise funds are established to account for City operations that are financed and operated in a manner similar to private business enterprises where the cost of providing goods or services to the general public is financed primarily through user charges.

**Airport System** — This fund is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport.

**Convention and Entertainment Facilities** — This fund is used to account for the operations of the City's major convention and entertainment centers, as well as parking facilities and selected downtown parks. These centers include George R. Brown Convention Center, Jones Hall, Wortham Theater Center, Houston Center for the Arts, Talento Bilingue de Houston, and Miller Outdoor Theater. The parking facilities include the Theater District Parking Garage, the Convention District Garage and various surface lots. Downtown parks include Sesquicentennial Park, Jones Plaza, Root Memorial Square, and Sabine Promenade.

**Combined Utility System** — This fund is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

**Nonmajor Enterprise Funds** – The Houston Area Water Corporation fund did not meet the established criteria for major fund status. The Houston Area Water Corporation was organized to provide water to the City of Houston for resale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District. Parking Management is a new fund created to manage parking facilities within the City of Houston. As of June 30, 2010, Houston Area Water Corporation had been dissolved and its net assets were transferred to the City.

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current Assets		
Equity in pooled cash and investments	\$ 1,018,843	\$ 767,199
Receivables, net of allowances		
Accounts receivable	24,976	2,047
Due from other funds	10,832	1,274
Due from other governments	6,476	11,299
Inventory	2,490	2,521
Prepaid items	2,305	2,475
Restricted assets		
Investments	6,806	6,826
Total current assets	1,072,728	793,641
Noncurrent Assets		
Deferred charges for issuance cost	9,389	5,375
Total noncurrent restricted assets	9,389	5,375
Capital assets		
Land	209,738	209,311
Buildings	2,006,729	1,975,730
Improvements and equipment	1,992,095	1,950,321
Construction in progress	470,551	285,996
Less accumulated depreciation	(1,623,137)	(1,462,635)
Net capital assets	3,055,976	2,958,723
Total noncurrent assets	3,065,365	2,964,098
<b>Total assets</b>	<b>\$ 4,138,093</b>	<b>\$ 3,757,739</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 44,541	\$ 63,195
Accrued payroll liabilities	4,151	3,731
Accrued interest payable	54,958	44,174
Due to other funds	538	336
Advances and deposits	1,492	1,865
Inferior lien contract	4,305	4,085
Claims and judgments	910	1,063
Compensated absences	5,113	4,751
Commercial paper payable	6,000	-
Revenue bonds payable	47,335	40,840
Deferred revenue	7,830	3,777
Total current liabilities	<u>177,173</u>	<u>167,817</u>
Noncurrent liabilities		
Revenue bonds payable, net	2,409,178	2,011,580
Claims and judgments	2,428	3,372
Compensated absences	5,717	5,252
Inferior lien contracts	37,430	41,735
Commercial paper	-	93,000
Municipal pension trust liability	37,205	33,329
Other post employment benefits	29,997	20,648
Pension obligation bonds payable	2,006	2,006
Total noncurrent liabilities	<u>2,523,961</u>	<u>2,210,922</u>
<b>Total liabilities</b>	<u>2,701,134</u>	<u>2,378,739</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	701,767	790,731
Restricted net assets		
Restricted for debt service	156,341	78,014
Restricted for renewal and replacement	10,000	10,000
Restricted for maintenance and operations	42,405	41,899
Restricted for capital improvements	526,446	458,356
<b>Total net assets</b>	<u>\$ 1,436,959</u>	<u>\$ 1,379,000</u>

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Landing area fees	\$ 94,165	\$ 82,823
Terminal space rentals	182,105	174,433
Parking	70,127	66,565
Concession	55,872	56,136
Other	4,310	5,800
Total operating revenue	<u>406,579</u>	<u>385,757</u>
<b>Operating Expenses</b>		
Maintenance and operating	245,051	241,303
Depreciation and amortization	164,186	136,554
Total operating expenses	<u>409,237</u>	<u>377,857</u>
Operating income (loss)	<u>(2,658)</u>	<u>7,900</u>
<b>Nonoperating revenue (expenses)</b>		
Investment income	30,487	37,332
Other revenue	7,525	1,093
Gain (Loss) on disposal of assets	(198)	1,020
Passenger facility charges	66,383	32,398
Interest on long-term debt	(95,037)	(94,396)
Total Nonoperating revenues (expenses)	<u>9,160</u>	<u>(22,553)</u>
Income (loss) before contributions and transfers	<u>6,502</u>	<u>(14,653)</u>
Capital contributions	<u>51,457</u>	<u>70,936</u>
Change in net assets	57,959	56,283
Total net assets, July 1	<u>1,379,000</u>	<u>1,322,717</u>
<b>Total net assets, June 30</b>	<u>\$ 1,436,959</u>	<u>\$ 1,379,000</u>

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 391,367	\$ 407,033
Payments to employees	(95,396)	(92,550)
Payments to suppliers	(100,890)	(86,101)
Internal activity-payments to other funds	(52,387)	(41,766)
Claims paid	(910)	(1,064)
Other revenues	5,775	544
Net cash provided by (used in) operating activities	<u>147,559</u>	<u>186,096</u>
<b>Cash flows from investing activities</b>		
Interest income on investments	30,487	37,329
Purchase of investments	(9,022)	(24,604)
Proceeds from sale of investments	9,043	25,237
Net cash provided by (used for) investing activities	<u>30,508</u>	<u>37,962</u>
<b>Cash flows from noncapital financing activities</b>		
Retirement of collateralized pension note payable	-	(34,800)
Interest expense electrical contract	-	(53)
Interest expense pension obligation bonds	(106)	(106)
Interest expense collateralized note	-	(3,823)
Deferred charges on future debt issuance	468	(441)
Net cash provided by (used in) noncapital financing activities	<u>362</u>	<u>(39,223)</u>
<b>Cash flows from capital and related financing activities</b>		
Retirement of revenue bonds	(45,490)	(43,050)
Retirement of commercial paper	(87,000)	-
Proceeds (uses of cash) from issuance of revenue bonds	443,288	(5)
Proceeds from issuance of commercial paper	-	10,000
Interest expense on revenue bonds	(98,822)	(102,334)
Retirement of inferior lien contract	(4,085)	(3,880)
Passenger facilities charges	66,383	32,398
Advances and deposits on construction	(337)	16
Contributed capital	55,304	61,864
Acquisition of property, plant and equipment	(256,026)	(201,448)
Net cash provided by (used in) capital and related financing activities	<u>73,215</u>	<u>(246,439)</u>
Net increase in cash and cash equivalents	251,644	(61,604)
Cash and cash equivalents, July 1	<u>767,199</u>	<u>828,803</u>
<b>Cash and cash equivalents, June 30</b>	<u>\$ 1,018,843</u>	<u>\$ 767,199</u>
<b>Non cash transactions</b>		
Donated assets	\$ (427)	\$ (2,009)
Capitalized interest expense	16,496	10,042
Capital additions included in liabilities	(9,462)	23,203
Gain (loss) on disposal of assets	198	(997)
Total non cash transactions	<u>\$ 6,805</u>	<u>\$ 30,239</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ (2,658)	\$ 7,900
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	164,186	136,554
Other post employment benefits	3,876	9,292
Other revenues	7,525	1,093
Due from other governments	549	(548)
Changes in assets and liabilities		
Accounts receivable	(21,529)	19,232
Due from other funds	(9,559)	(1,240)
Inventory and prepaid insurance	201	96
Accounts payable	(8,751)	8,276
Accrued payroll liabilities	421	290
Due to other funds	202	329
Advances and deposits	4,018	2,043
Claims and judgments - workers' compensation	(1,098)	(587)
Compensated absences	827	146
Pension Obligation payable	9,349	3,220
Net cash provided by operating activities	<u>\$ 147,559</u>	<u>\$ 186,096</u>

**CITY OF HOUSTON, TEXAS**  
**CONVENTION & ENTERTAINMENT**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current Assets		
Equity in pooled cash and investments	\$ 99,915	\$ 100,469
Receivables, net of allowances		
Accounts receivable	1,104	1,151
Hotel occupancy tax receivable	15,707	14,713
Due from component units	14,571	13,431
Due from other funds	167	202
Due from other governments	700	590
Prepaid items	852	785
Restricted assets		
Investments	21,774	21,774
Total current assets	154,790	153,115
Noncurrent Assets		
Due from component units	276,788	288,758
Deferred charges for issuance cost	2,921	3,186
Total noncurrent restricted assets	279,709	291,944
Capital assets		
Land	94,871	99,757
Buildings	554,727	552,701
Improvements and equipment	12,322	10,969
Infrastructure	334	110
Construction in progress	2,488	4,767
Garage Rights	13,144	13,144
Less accumulated depreciation and amortization	(187,569)	(172,647)
Net capital assets	490,317	508,801
Total noncurrent assets	770,026	800,745
<b>Total assets</b>	<b>\$ 924,816</b>	<b>\$ 953,860</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**CONVENTION & ENTERTAINMENT**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 2,716	\$ 5,440
Accrued payroll liabilities	440	396
Accrued interest payable	4,678	5,080
Arbitrage rebate	473	-
Due to other funds	-	345
Due to component units	25,597	24,437
Due to other governments	48	55
Advances and deposits	848	895
Claims for workers' compensation	3	-
Compensated absences	661	589
Revenue bonds payable	23,260	21,230
Deferred revenue	3	396
<b>Total current liabilities</b>	<u>58,727</u>	<u>58,863</u>
Noncurrent liabilities		
Revenue bonds payable	581,107	594,240
Compensated absences	615	614
Commercial paper	43,800	43,800
Arbitrage rebate	-	361
Municipal pension trust liability	3,930	3,510
Other post employment benefits	2,381	1,638
Deferred revenue	39	9,005
Pension obligation bonds payable	3,884	3,884
<b>Total noncurrent liabilities</b>	<u>635,756</u>	<u>657,052</u>
<b>Total liabilities</b>	<u>694,483</u>	<u>715,915</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	139,395	161,540
Restricted net assets		
Restricted for debt service	17,096	16,694
Restricted for maintenance and operations	15,977	16,665
Unrestricted	57,865	43,046
<b>Total net assets</b>	<u>\$ 230,333</u>	<u>\$ 237,945</u>

**CITY OF HOUSTON, TEXAS**  
**CONVENTION & ENTERTAINMENT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Parking	\$ 9,835	\$ 8,885
Concession	3,283	5,167
Rental	7,180	6,850
Total operating revenue	<u>20,298</u>	<u>20,902</u>
<b>Operating Expenses</b>		
Maintenance and operating	39,817	39,142
Depreciation and amortization	14,958	14,888
Total operating expenses	<u>54,775</u>	<u>54,030</u>
Operating income (loss)	<u>(34,477)</u>	<u>(33,128)</u>
<b>Nonoperating revenue (expenses)</b>		
Investment income	11,971	17,688
Hotel occupancy tax	54,917	62,383
Other revenue	1,790	1,082
Gain (loss) on disposal of assets	11,535	(174)
Other expenses	(24,896)	(30,166)
Interest on long-term debt	(26,032)	(29,740)
Contributions In	4,413	1,580
Total Nonoperating revenues (expenses)	<u>33,698</u>	<u>22,653</u>
Income (loss) before contributions and transfers	<u>(779)</u>	<u>(10,475)</u>
Capital contributions	<u>-</u>	<u>105,968</u>
Transfers in	1,259	4,635
Transfers out	(8,092)	(500)
Total transfers	<u>(6,833)</u>	<u>4,135</u>
Change in net assets	(7,612)	99,628
Total net assets, July 1	<u>237,945</u>	<u>138,317</u>
<b>Total net assets, June 30</b>	<u>\$ 230,333</u>	<u>\$ 237,945</u>



**CITY OF HOUSTON, TEXAS**  
**CONVENTION & ENTERTAINMENT**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 19,861	\$ 20,905
Payments to employees	(9,855)	(9,181)
Payments to suppliers	(30,086)	(29,000)
Internal activity-payments to other funds	(1,551)	(757)
Claims paid	(29)	(178)
Due to other governments	(7)	(53)
Other revenues	1,790	1,082
Other expenses	(2,643)	(2,592)
Net cash provided by (used in) for operating activities	(22,520)	(19,774)
<b>Cash flows from investing activities</b>		
Interest income on investments	11,971	17,688
Net cash provided by investing activities	11,971	17,688
<b>Cash flows from capital and related financing activities</b>		
Retirement of revenue bonds	(21,230)	(18,620)
Interest expense on debt	(16,034)	(20,453)
Proceeds from disposition of assets	7,500	-
Acquisition of property, plant and equipment, net	(1,360)	(4,659)
Net cash provide by (used in) for capital and related financing activities	(31,124)	(43,732)
<b>Cash flows from noncapital financing activities</b>		
Promotional contract paid from hotel occupancy tax revenues to component units	(22,254)	(27,574)
Transfers	(6,833)	4,135
Payments from Hotel Corporation	15,703	11,775
Hotel occupancy tax revenue	54,513	67,122
Interest expense on pension obligation bonds	(10)	(10)
Interest expense on collateralized note	-	(34)
Net cash provided by (used in) noncapital financing activities	41,119	55,414
Net increase (decrease) in cash and cash equivalents	(554)	9,596
Cash and cash equivalents, July 1	100,469	90,873
<b>Cash and cash equivalents, June 30</b>	<b>\$ 99,915</b>	<b>\$ 100,469</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**CONVENTION & ENTERTAINMENT**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Non cash transactions</b>		
Gain (loss) on disposal of assets	\$ 8,923	\$ -
Contributions of capital assets	-	(105,968)
Capital additions included in liabilities	-	-
Capitalized interest expense	-	-
Total non cash transactions	<u>\$ 8,923</u>	<u>\$ (105,968)</u>
<b>Reconciliation of operating income to net cash used by operating activities</b>		
Operating income (loss)	\$ (34,477)	\$ (33,128)
Depreciation and amortization	14,958	14,888
Other post employment benefits	743	719
Other revenues	1,790	1,082
Other expenses	(2,643)	(2,592)
Changes in assets and liabilities		
Accounts receivable and prepaids	(21)	775
Due from other funds	35	(100)
Accounts payable	(2,724)	(1,229)
Accrued payroll liabilities	45	15
Due to other funds	(345)	345
Due to other governments	(7)	(53)
Advances and deposits	(47)	(157)
Claims and judgments-workers' compensation	3	(160)
Compensated absences	73	(3)
Deferred revenue	(435)	(946)
Pension Obligation payable	420	749
Other long-term liabilities	112	21
Net cash used in operating activities	<u>\$ (22,520)</u>	<u>\$ (19,774)</u>

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets		
Equity in pooled cash and investments	\$ 568,969	\$ 640,694
Receivables, net of allowances		
Accounts receivable	79,643	95,914
Special assessments receivable	93	93
Due from other funds	7,629	13,259
Due from other governments	5,653	8,619
Inventory	6,919	6,867
Prepaid items	3,363	4,009
Total current assets	672,269	769,455
Noncurrent Assets		
Due from other Funds	-	96,859
Amounts held by other governments	10,288	10,146
Deferred inflow related to SWAP liability	182,419	-
Deferred charges for issuance cost	60,096	61,270
Total noncurrent restricted assets	252,803	168,275
Capital assets		
Land	121,461	119,995
Buildings	172,117	106,532
Improvements and equipment	124,031	114,678
Plants, lines and rights	8,925,509	8,393,958
Construction in progress	272,363	457,327
Water rights	462,065	456,915
Less accumulated depreciation and amortization	(4,322,670)	(4,404,147)
Net capital assets	5,754,876	5,245,258
Total noncurrent assets	6,007,679	5,413,533
<b>Total assets</b>	<b>\$ 6,679,948</b>	<b>\$ 6,182,988</b>

(Continued)

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>2010</b>	<b>2009</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 65,718	\$ 89,826
Accrued payroll liabilities	5,679	5,468
Accrued interest payable	31,302	30,973
Contracts payable	14,404	14,928
Due to other funds	1,042	9,588
Due to other governments	1,065	2,803
Advances and deposits	38,917	37,367
Claims and judgments	1,119	1,111
Compensated absences	8,342	7,527
Arbitrage rebate	3,985	-
Revenue bonds payable	74,629	68,187
Total current liabilities	246,202	267,778
Noncurrent liabilities		
Revenue bonds payable	5,343,993	5,415,947
Claims and judgments	1,030	976
Compensated absences	10,904	11,823
Contracts payable	168,930	178,332
Commercial paper	235,500	-
Arbitrage rebate	141	5,267
Municipal pension trust liability	58,303	52,817
Other post employment benefits	53,751	36,892
Deferred outflow related to SWAP liability	182,419	-
Deferred revenue	356,271	326,980
Pension obligation bonds payable	61,158	61,157
Total noncurrent liabilities	6,472,400	6,090,191
<b>Total liabilities</b>	<b>6,718,602</b>	<b>6,357,969</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	48,150	(283,806)
Restricted net assets		
Restricted for maintenance and operations	69,242	69,242
Restricted for capital improvements	5,653	8,619
Unrestricted	(161,699)	30,964
<b>Total net assets (deficit)</b>	<b>\$ (38,654)</b>	<b>\$ (174,981)</b>

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
**amounts expressed in thousands**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Water/Sewer Billing	\$ 691,138	\$ 687,238
Total operating revenue	<u>691,138</u>	<u>687,238</u>
<b>Operating Expenses</b>		
Maintenance and operating	372,370	371,771
Depreciation and amortization	203,695	204,919
Total operating expenses	<u>576,065</u>	<u>576,690</u>
Operating income (loss)	<u>115,073</u>	<u>110,548</u>
<b>Nonoperating revenue (expenses)</b>		
Investment income	15,160	33,436
Other revenue	28,591	29,880
Gain (Loss) on disposal of assets	24	(5,432)
Interest on long-term debt	(273,609)	(260,396)
Contributions in	6,297	2,969
Total Nonoperating revenues (expenses)	<u>(223,537)</u>	<u>(199,543)</u>
Income (loss) before contributions and transfers	<u>(108,464)</u>	<u>(88,995)</u>
Capital contributions	<u>7,215</u>	<u>17,109</u>
Transfers in	22,950	-
Transfers out	<u>(62,596)</u>	<u>(77,124)</u>
Total transfers	<u>(39,646)</u>	<u>(77,124)</u>
Change in net assets	<u>(140,895)</u>	<u>(149,010)</u>
Total net assets, July 1 as previously reported	<u>(174,981)</u>	<u>(25,971)</u>
Cumulative effect of a change in an accounting principle	<u>277,222</u>	<u>-</u>
Beginning net assets, July 1 as restated	<u>102,241</u>	<u>(25,971)</u>
Total net assets, June 30	<u>\$ (38,654)</u>	<u>\$ (174,981)</u>

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 708,961	\$ 689,178
Payments to employees	(144,032)	(136,781)
Payments to suppliers	(212,748)	(189,835)
Internal activity-payments to other funds	(22,124)	(25,185)
Claims paid	(406)	(303)
Other revenues	28,591	29,880
Net cash provided by (used in) operating activities	<u>358,242</u>	<u>366,954</u>
<b>Cash flows from investing activities</b>		
Interest income on investments	15,160	33,436
Net cash provided by (used in) investing activities	<u>15,160</u>	<u>33,436</u>
<b>Cash flows from capital and related financing activities</b>		
Retirement of revenue bonds	(108,020)	(83,528)
Retirement of commercial paper	(124,500)	(322,775)
Refunded bonds	(249,075)	(23,660)
Proceeds from issuance of revenue bonds - net	263,450	537,595
Proceeds from issuance of commercial paper	360,000	166,275
Interest expense on debt	(263,068)	(247,077)
Proceeds from disposition of assets	4,542	188
Acquisition of water rights	(5,150)	-
Contributed capital	(79,696)	50,715
Deferred bond issuance cost	(4,708)	(10,682)
Due from other funds - HAWC	96,859	-
Acquisition of property, plant and equipment	(296,116)	(391,518)
Net cash used for capital and related financing activities	<u>(405,482)</u>	<u>(324,467)</u>
<b>Cash flows from noncapital financing activities</b>		
Proceeds from pension bonds	-	6,175
Transfers to debt service fund	(26,828)	(28,419)
Transfers to other funds	(12,817)	(48,578)
Net cash used in noncapital financing activities	<u>(39,645)</u>	<u>(70,822)</u>
Net decrease in cash and cash equivalents	(71,725)	5,101
Cash and cash equivalents, July 1	<u>640,694</u>	<u>635,593</u>
<b>Cash and cash equivalents, June 30</b>	<u>\$ 568,969</u>	<u>\$ 640,694</u>
<b>Non cash transactions</b>		
Contributed Capital	(7,215)	(17,109)
Capitalized interest expense	13,878	13,198
CAB accretion interest	15,968	17,601
Gain (loss) on disposal of assets	(24)	5,432
Total non cash transactions	<u>\$ 22,607</u>	<u>\$ 19,122</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 115,071	\$ 110,548
Depreciation and amortization	203,696	204,919
Other post employment benefits	16,859	17,037
Other revenues	28,590	29,880
Accounts receivable	16,272	813
Due from other funds	5,630	(11,715)
Due from other governments	(1,879)	1,626
Inventory & prepaid insurance	593	(980)
Accounts payable	(24,108)	2,673
Accrued payroll liabilities	211	561
Due to other funds	(8,547)	9,273
Arbitrage rebate	(1,142)	425
Advances and deposits	1,552	1,127
Claims and judgments-workers' compensation	62	(448)
Compensated absences	(104)	(685)
Pension obligation payable	5,486	4,510
Other long-term liabilities	-	(2,610)
Net cash provided by operating activities	<u>\$ 358,242</u>	<u>\$ 366,954</u>

**CITY OF HOUSTON, TEXAS**  
**NONMAJOR ENTERPRISE FUNDS**  
**Statement of Net Assets**  
**June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>Houston Area Water Corp.</b>	<b>Parking Management</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>				
<b>Current Assets</b>				
Equity in pooled cash and investments		\$ 3,593	\$ 3,593	\$ 8,638
Receivables, net of allowances				
Accounts receivable	-	359	359	1,301
Due from other funds	-	2	2	1,034
Total current assets	<u>-</u>	<u>3,954</u>	<u>3,954</u>	<u>10,973</u>
<b>Capital assets</b>				
Buildings	-	-	-	19,749
Improvements and equipment	-	932	932	670
Plants, lines and rights	-	4,328	4,328	121,595
Construction in progress	-	19	19	735
Less accumulated depreciation	-	(760)	(760)	(16,395)
Net capital assets	<u>-</u>	<u>4,519</u>	<u>4,519</u>	<u>126,354</u>
Total noncurrent assets	<u>-</u>	<u>4,519</u>	<u>4,519</u>	<u>126,354</u>
Total assets	<u>\$ -</u>	<u>\$ 8,473</u>	<u>\$ 8,473</u>	<u>\$ 137,327</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ -	\$ 631	\$ 631	\$ 2,062
Accrued payroll liabilities	-	131	131	113
Due to other funds	-	-	-	2,820
Claims and judgments	-	36	36	5
Compensated absences	-	156	156	136
Total current liabilities	<u>-</u>	<u>954</u>	<u>954</u>	<u>5,136</u>
<b>Noncurrent liabilities</b>				
Due to other funds	-	-	-	96,859
Claims and judgments	-	20	20	6
Compensated absences	-	82	82	66
Municipal pension trust liability	-	296	296	174
Other post retirement benefits	-	861	861	557
Total noncurrent liabilities	<u>-</u>	<u>1,259</u>	<u>1,259</u>	<u>97,662</u>
Total liabilities	<u>-</u>	<u>2,213</u>	<u>2,213</u>	<u>102,798</u>
<b>Net assets</b>				
Investment in capital assets, net of related debt	-	4,520	4,520	126,354
Unrestricted	-	1,740	1,740	(91,825)
Total net assets	<u>\$ -</u>	<u>\$ 6,260</u>	<u>\$ 6,260</u>	<u>\$ 34,529</u>



**CITY OF HOUSTON, TEXAS**  
**NONMAJOR ENTERPRISE FUNDS**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>Houston Area Water Corp.</b>	<b>Parking Management</b>	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>				
Parking	\$ -	\$ 13,676	\$ 13,676	\$ 13,250
Total operating revenue	<u>-</u>	<u>13,676</u>	<u>13,676</u>	<u>13,250</u>
<b>Operating Expenses</b>				
Administrative costs	-	6,492	6,492	4,499
Maintenance and operating	6,407	158	6,565	9,288
Depreciation and amortization	3,542	319	3,861	4,523
Total operating expenses	<u>9,949</u>	<u>6,969</u>	<u>16,918</u>	<u>18,310</u>
Operating income (loss)	<u>(9,949)</u>	<u>6,707</u>	<u>(3,242)</u>	<u>(5,060)</u>
<b>Nonoperating revenue (expenses)</b>				
Investment income	-	118	118	281
Other revenue	-	411	411	443
Loss on disposal of assets	-	-	-	(13)
Other expenses	-	-	-	(1,463)
Contributions in	-	-	-	25
Total Nonoperating revenues (expenses)	<u>-</u>	<u>529</u>	<u>529</u>	<u>(727)</u>
Income (loss) before contributions and transfers	<u>(9,949)</u>	<u>7,236</u>	<u>(2,713)</u>	<u>(5,787)</u>
Transfers in	6,923	-	6,923	9,449
Transfers out	(22,950)	(9,529)	(32,479)	(7,236)
Total transfers	<u>(16,027)</u>	<u>(9,529)</u>	<u>(25,556)</u>	<u>2,213</u>
Change in net assets	(25,976)	(2,293)	(28,269)	(3,574)
Total net assets (deficit), July 1	<u>25,976</u>	<u>8,553</u>	<u>34,529</u>	<u>38,103</u>
Total net assets, June 30	<u>\$ -</u>	<u>\$ 6,260</u>	<u>\$ 6,260</u>	<u>\$ 34,529</u>

**CITY OF HOUSTON, TEXAS**  
**NONMAJOR ENTERPRISE FUNDS**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*(With comparative amounts for 2009)*  
*amounts expressed in thousands*

	<b>Houston Area Water Corp.</b>	<b>Parking Management</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ -	\$ 13,573	\$ 13,573	\$ 13,243
Payments to employees	-	(2,772)	(2,772)	(2,563)
Payments to suppliers	(6,352)	(2,823)	(9,175)	(7,114)
Internal activity-payments (to) from other funds	4,544	8	4,552	6,367
Other revenues	-	411	411	443
Net cash provide by (used in) operating activities	<u>(1,808)</u>	<u>8,397</u>	<u>6,589</u>	<u>10,376</u>
<b>Cash flows from investing activities</b>				
Interest income on investments	-	118	118	282
Net cash provided by (used in) investing activities	<u>-</u>	<u>118</u>	<u>118</u>	<u>282</u>
<b>Cash flows from capital and related financing activities</b>				
Advances and deposits on construction	551	-	551	36
Acquisition of property, plant and equipment	(515)	(568)	(1,083)	(419)
Net cash provided by (used in) capital and related financing activities	<u>36</u>	<u>(568)</u>	<u>(532)</u>	<u>(383)</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(1,690)	(9,529)	(11,219)	(7,236)
Net cash provided by noncapital financing activities	<u>(1,690)</u>	<u>(9,529)</u>	<u>(11,219)</u>	<u>(7,174)</u>
Net increase (decrease) in cash and cash equivalents	(3,462)	(1,582)	(5,044)	3,039
Cash and cash equivalents, July 1, 2009	3,462	5,175	8,638	5,599
Cash and cash equivalents, June 30	<u>\$ -</u>	<u>\$ 3,593</u>	<u>\$ 3,594</u>	<u>\$ 8,638</u>
<b>Non cash transactions</b>				
Gain on disposal of assets	\$ -	\$ -	\$ -	\$ (13)
Total non cash transactions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13)</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (9,949)	\$ 6,707	\$ (3,242)	\$ (5,060)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	3,542	319	3,861	4,523
Other post employment benefits	-	-	-	268
Other revenues	6,922	411	7,333	9,892
Changes in assets and liabilities				
Accounts receivable	(552)	(103)	(655)	358
Due from other funds	-	8	8	(9)
Accounts payable	(1,771)	529	(1,242)	249
Accrued payroll liabilities	-	18	18	25
Claims for workers' compensation	-	45	45	11
Compensated absences	-	37	37	22
Pension obligation payable	-	426	426	97
Net cash used for operating activities	<u>\$ (1,808)</u>	<u>\$ 8,397</u>	<u>\$ 6,589</u>	<u>\$ 10,376</u>

## **Internal Service Funds**

Internal service funds are used to account for the financing of goods or services provided by one city department to other city departments on a cost reimbursement basis.

**Health Benefits** — This fund is used to account for the costs incurred to provide City employees' health care and life insurance benefits.

**Long-Term Disability** — This fund is used to account for the costs incurred to provide City employees' long-term disability coverage.

**CITY OF HOUSTON, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**Combining Statement of Net Assets**  
**June 30, 2010**  
**(With comparative totals for 2009)**  
*amounts expressed in thousands*

	<b>Health Benefits</b>	<b>Long-term Disability</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>				
Equity in pooled cash and investments	\$ 7,167	\$ 10,367	\$ 17,534	\$ 15,366
Receivables, net of allowances				
Accounts receivable	2	-	2	1
Due from other funds	1	-	1	6
Due from other governments	1,490	-	1,490	1,061
Prepaid items	3	-	3	3
Total current assets	<u>8,663</u>	<u>10,367</u>	<u>19,030</u>	<u>16,437</u>
Capital assets				
Buildings, improvements and equipment	6	-	6	6
Construction in progress	348	-	348	348
Total capital assets	<u>354</u>	<u>-</u>	<u>354</u>	<u>354</u>
Less accumulated depreciation	(1)	-	(1)	-
Accumulated depreciation	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Net capital assets	<u>353</u>	<u>-</u>	<u>353</u>	<u>354</u>
Total noncurrent assets	<u>353</u>	<u>-</u>	<u>353</u>	<u>354</u>
<b>Total Assets</b>	<u>9,016</u>	<u>10,367</u>	<u>19,383</u>	<u>16,791</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable	101	34	135	217
Accrued payroll liabilities	129	-	129	120
Due to other funds	1,452	-	1,452	2,728
Claims and judgments	1,031	2,314	3,345	3,050
Compensated absences	175	-	175	150
Unearned revenue	1,787	-	1,787	1,449
Total current liabilities	<u>4,675</u>	<u>2,348</u>	<u>7,023</u>	<u>7,714</u>
Noncurrent liabilities				
Claims and judgments	-	5,556	5,556	6,004
Compensated absences	169	-	169	140
Total noncurrent liabilities	<u>169</u>	<u>5,556</u>	<u>5,725</u>	<u>6,144</u>
<b>Total liabilities</b>	<u>4,844</u>	<u>7,904</u>	<u>12,748</u>	<u>13,858</u>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	353	-	353	354
Unrestricted	3,819	2,463	6,282	2,579
<b>Total net assets</b>	<u>\$ 4,172</u>	<u>\$ 2,463</u>	<u>\$ 6,635</u>	<u>\$ 2,933</u>

**CITY OF HOUSTON, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2010**  
**(With comparative totals for 2009)**  
*amounts expressed in thousands*

	<u>Health Benefits</u>	<u>Long-term Disability</u>	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>				
Other	\$ 1,164	\$ -	\$ 1,164	\$ -
Health benefit premiums	310,546	1,309	311,855	288,874
Total operating revenues	<u>311,710</u>	<u>1,309</u>	<u>313,019</u>	<u>288,874</u>
<b>Operating Expenses</b>				
Administrative costs	3,677	14	3,691	3,457
Claims Costs	305,485	714	306,199	289,266
Maintenance and operating	-	-	-	243
Depreciation and amortization	1	-	1	-
Total operating expenses	<u>309,163</u>	<u>728</u>	<u>309,891</u>	<u>292,966</u>
Operating income (loss)	<u>2,547</u>	<u>581</u>	<u>3,128</u>	<u>(4,092)</u>
<b>Nonoperating revenues (expenses)</b>				
Investment income	333	241	574	951
Total Nonoperating revenues (expenses)	<u>333</u>	<u>241</u>	<u>574</u>	<u>951</u>
Income (loss) before contributions and transfers	<u>2,880</u>	<u>822</u>	<u>3,702</u>	<u>(3,141)</u>
Transfers out	-	-	-	(1,000)
<b>Total transfers</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,000)</u>
Change in net assets	2,880	822	3,702	(4,141)
Total net assets (deficit), July 1	<u>1,292</u>	<u>1,641</u>	<u>2,933</u>	<u>7,074</u>
<b>Total net assets, June 30</b>	<u>\$ 4,172</u>	<u>\$ 2,463</u>	<u>\$ 6,635</u>	<u>\$ 2,933</u>

**CITY OF HOUSTON, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
**(With comparative totals for 2009)**  
*amounts expressed in thousands*

	Health Benefits	Long-term Disability	2010	2009
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 310,545	\$ 1,309	\$ 311,854	\$ 288,870
Payments to employees	(2,835)	-	(2,835)	(2,805)
Payments to suppliers	(440)	9	(431)	(763)
Internal activity-payments to other funds	(178)	(1,605)	(1,783)	1,630
Claims paid	(305,457)	(918)	(306,375)	(289,286)
Other revenues	1,164	-	1,164	-
Other expenses	-	-	-	(1,000)
<b>Net cash provided by (used in) operating activities</b>	<u>2,799</u>	<u>(1,205)</u>	<u>1,594</u>	<u>(3,354)</u>
<b>Cash flows from investing activities</b>				
Interest income on investments	333	241	574	951
Net cash provided by investing activities	<u>333</u>	<u>241</u>	<u>574</u>	<u>951</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of property, plant and equipment	-	-	-	(20)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Net increase (decrease) in cash and cash equivalents	3,132	(964)	2,168	(2,423)
Cash and cash equivalents, July 1	4,035	11,331	15,366	17,789
<b>Cash and cash equivalents, June 30</b>	<u>\$ 7,167</u>	<u>\$ 10,367</u>	<u>\$ 17,534</u>	<u>\$ 15,366</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 2,547	\$ 581	\$ 3,128	\$ (4,092)
Adjustments to reconcile operating income to net cash provided by operating activities				
Other expenses	-	-	-	(1,000)
Changes in assets and liabilities				
Accounts receivable	(1)	-	(1)	(1)
Due from other funds	5	(1,605)	(1,600)	(6)
Due from other governments	(429)	-	(429)	(1,061)
Inventory & prepaid insurance	-	-	-	(3)
Accounts payable	(89)	9	(80)	34
Accrued payroll liabilities	9	-	9	17
Due to other funds	329	-	329	2,728
Claims for workers' compensation	36	(190)	(154)	(191)
Compensated absences	54	-	54	32
Deferred revenue	338	-	338	189
<b>Net cash provided by operating activities</b>	<u>\$ 2,799</u>	<u>\$ (1,205)</u>	<u>\$ 1,594</u>	<u>\$ (3,354)</u>

## **Fiduciary Funds (Trust and Agency Funds)**

Trust and Agency Funds are used to account for assets held by a government unit as trustee, or agent, for individuals, private organizations, other governmental units, and/or other funds.

**Pension trust funds** are used to account for the operation of the employee pension retirement programs. The funds include: Houston Firefighters' Relief and Retirement, Houston Municipal Employees', and Police Officers' funds.

**Agency funds** are custodial in nature, and assets equal liabilities with no measure of the results of operations or financial position. Agency funds include: Payroll Revolving, City Deposits, and Tax Clearing Funds.

**CITY OF HOUSTON, TEXAS**  
**PENSION TRUST FUNDS**  
**Combining Statement of Plan Net Assets**  
**June 30, 2010**  
**(With comparative totals for 2009)**  
*amounts expressed in thousands*

		<b>Firefighters' Relief and Retirement Pension Trust Fund</b>
<b>Assets</b>		
Cash	\$	15,851
Investments		
U.S. government and agency securities		-
Corporate bonds		-
Other fixed income securities		946,818
Commingled equity funds		-
Common and preferred stock		932,216
Real estate and partnerships		737,234
Short-term investment funds		69,376
Invested securities lending collateral		198,672
Receivables, net of allowances		
Due from broker		7
Contributions		5,227
Accrued interest and dividends		16,764
Other		22,229
Other assets		1,380
Land		483
Building		6,323
<b>Total assets</b>		<b>2,952,580</b>
 <b>Liabilities and plan net asset</b>		
Liabilities		
Accounts payable		21,720
Securities lending collateral		198,672
Foreign funds contracts payable		10,454
Other liabilities		96
<b>Total liabilities</b>		<b>230,942</b>
 <b>Plan net assets held in trust for pension benefits</b>	 <b>\$</b>	 <b>2,721,638</b>

(Continued)



<b>Municipal Employees' Pension Trust Fund</b>	<b>Police Officers' Pension Trust Fund</b>	<b>2010</b>	<b>2009</b>
\$ 1,599	\$ 559	\$ 18,010	\$ 688
1,591		1,591	46,951
137,937		137,937	134,194
-	721,061	1,667,879	1,603,650
555,114	-	555,114	586,691
577,373	967,066	2,476,655	1,994,210
529,620	1,035,288	2,302,142	1,867,328
23,298	240,209	332,883	520,648
151,091	196,200	545,963	501,948
3,897	26,464	30,368	19,280
-	1,841	7,068	6,606
-	7,848	24,612	24,747
4,955	192	27,376	18,335
7,574	-	8,954	8,595
-	-	483	483
-	-	6,323	6,625
<u>1,994,049</u>	<u>3,196,728</u>	<u>8,143,358</u>	<u>7,340,979</u>
5,693	27,006	54,419	52,773
151,091	196,200	545,963	501,948
3,900	1,002	15,356	10,738
4,873	493	5,462	5,696
<u>165,557</u>	<u>224,701</u>	<u>621,200</u>	<u>571,155</u>
<u>\$ 1,828,492</u>	<u>\$ 2,972,027</u>	<u>\$ 7,522,158</u>	<u>\$ 6,769,824</u>

**CITY OF HOUSTON, TEXAS**  
**PENSION TRUST FUNDS**  
**Combining Statement of Changes in Plan Net Assets**  
**For the Year Ended June 30, 2010**  
**(With comparative totals for 2009)**  
*amounts expressed in thousands*

	<b>Firefighters' Relief and Retirement Pension Trust Fund</b>
<b>Additions:</b>	
Contributions	
City of Houston	\$ 74,227
Members	22,728
Total Contributions	96,955
Investment income	
Interest	59,422
Net appreciation in fair value of investments	320,275
Dividends	18,158
Income on securities lending	613
Earnings from real estate, limited partnerships real estate investments, and other investments	9,144
Other income	861
Total investment and other income (loss)	408,473
Less - investment expense	(7,854)
Less - cost of securities lending	(150)
Total additions (reductions)	497,424
<b>Deductions:</b>	
Benefits paid to members	138,297
Refunds to members	277
Other	6,172
Total deductions	144,746
<b>Net increase (decrease)</b>	352,678
Plan net assets held in trust for pension benefits, beginning of year	2,368,961
<b>Plan net assets held in trust for pension benefits, end of year</b>	\$ 2,721,639

(Continued)

<b>Municipal Employees' Pension Trust Fund</b>	<b>Police Officers' Pension Trust Fund</b>	<b>2010</b>	<b>2009</b>
\$ 82,052	\$ 73,192	\$ 229,471	\$ 215,870
19,736	34,218	76,682	74,826
<u>101,788</u>	<u>107,410</u>	<u>306,153</u>	<u>290,696</u>
11,681	30,029	101,132	107,511
168,582	330,724	819,581	(1,831,337)
13,029	16,608	47,795	43,969
752	631	1,996	22,694
7,775	-	16,919	12,624
558	72	1,491	918
<u>202,377</u>	<u>378,064</u>	<u>988,914</u>	<u>(1,643,621)</u>
(6,061)	(13,338)	(27,253)	(20,996)
(326)	(158)	(634)	(4,859)
<u>297,778</u>	<u>471,978</u>	<u>1,267,180</u>	<u>(1,378,780)</u>
191,048	161,735	491,080	447,087
1,285	547	2,109	2,734
7,095	8,390	21,657	21,065
<u>199,428</u>	<u>170,672</u>	<u>514,846</u>	<u>470,886</u>
98,350	301,306	752,334	(1,849,666)
<u>1,730,142</u>	<u>2,670,721</u>	<u>6,769,824</u>	<u>8,619,490</u>
<u>\$ 1,828,492</u>	<u>\$ 2,972,027</u>	<u>\$ 7,522,158</u>	<u>\$ 6,769,824</u>

**CITY OF HOUSTON, TEXAS**  
**AGENCY FUNDS**  
**Combining Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
<b>Payroll Revolving Fund</b>				
<b>Assets</b>				
Equity in pooled cash and investments	\$ 1,362	\$ 7,127,221	\$ 7,128,077	\$ 506
Accounts receivable	121	-	-	\$ 121
Total assets	<u>\$ 1,483</u>	<u>\$ 7,127,221</u>	<u>\$ 7,128,077</u>	<u>\$ 627</u>
<b>Liabilities</b>				
Accounts payable	\$ 1,483	\$ 2,651,952	\$ 2,652,808	\$ 627
Total liabilities	<u>\$ 1,483</u>	<u>\$ 2,651,952</u>	<u>\$ 2,652,808</u>	<u>\$ 627</u>
<b>City Deposit Fund</b>				
<b>Assets</b>				
Equity in pooled cash and investments	\$ 133	\$ 3	\$ 6	\$ 130
Total assets	<u>\$ 133</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 130</u>
<b>Liabilities</b>				
Advances and deposits	\$ 133	\$ -	\$ 3	\$ 130
Total liabilities	<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 130</u>
<b>Tax Clearing Fund</b>				
<b>Assets</b>				
Equity in pooled cash and investments	\$ 13,186	\$ 143,382	\$ 127,627	\$ 28,941
Total assets	<u>\$ 13,186</u>	<u>\$ 143,382</u>	<u>\$ 127,627</u>	<u>\$ 28,941</u>
<b>Liabilities</b>				
Accounts payable	\$ 13,186	\$ 228,938	\$ 213,183	\$ 28,941
Total liabilities	<u>\$ 13,186</u>	<u>\$ 228,938</u>	<u>\$ 213,183</u>	<u>\$ 28,941</u>
<b>Totals - All Agency Funds</b>				
<b>Assets</b>				
Equity in pooled cash and investments	\$ 14,681	\$ 7,270,606	\$ 7,255,710	\$ 29,577
Accounts receivable	121	-	-	\$ 121
Total assets	<u>\$ 14,802</u>	<u>\$ 7,270,606</u>	<u>\$ 7,255,710</u>	<u>\$ 29,698</u>
<b>Liabilities</b>				
Accounts payable	\$ 14,669	\$ 2,880,890	\$ 2,865,991	\$ 29,568
Advances and deposits	133	-	3	\$ 130
Total liabilities	<u>\$ 14,802</u>	<u>\$ 2,880,890</u>	<u>\$ 2,865,994</u>	<u>\$ 29,698</u>

# Discretely Presented Component Units (Governmental and Business-type)

Discretely Presented Component Units are legally separate organizations that the City of Houston must include as a part of its financial reporting entity for fair presentation.

**Governmental** – This category is primarily comprised of advisory boards and redevelopment authorities:

- City Park Redevelopment Authority
- East Downtown Redevelopment Authority
- Fifth Ward Redevelopment Authority
- Fourth Ward Redevelopment Authority
- Greater Greenspoint Redevelopment Authority
- Greater Houston Convention and Visitors Bureau
- Gulfgate Redevelopment Authority
- Houston Area Library Automated Network (HALAN)
- Houston Arts Alliance
- Houston Business Development Inc.
- Houston Downtown Park Corporation
- Houston Parks Board, Inc.
- Houston Parks Board LGC, Inc.
- Houston Public Library Foundation
- Lamar Terrace Public Improvement District
- Land Assemblage Redevelopment Authority
- Leland Woods Redevelopment Authority I
- Leland Woods Redevelopment Authority II
- Main Street Market Square Redevelopment Authority
- Memorial City Redevelopment Authority
- Memorial-Heights Redevelopment Authority
- Midtown Redevelopment Authority
- Miller Theatre Advisory Board
- Old Sixth Ward Redevelopment Authority
- OST/Almeda Corridors Redevelopment Authority
- Saint George Place Redevelopment Authority
- South Post Oak Redevelopment Authority
- Southwest Houston Redevelopment Authority
- Upper Kirby Redevelopment Authority
- Uptown Development Authority

**Business-type** – This category is comprised of:

- Houston Convention Center Hotel Corporation
- Houston Housing Finance Corporation
- Houston Zoo Inc.

CITY OF HOUSTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL  
Combining Statement of Net Assets  
June 30, 2010  
amounts expressed in thousands

	City Park Redevelopment Authority	East Downtown Redevelopment Authority	Fifth Ward Redevelopment Authority	Fourth Ward Redevelopment Authority	Greater Greenspoint Redevelopment Authority
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 460	\$ 2,294	\$ 602	\$ 1,780	\$ 25,594
Equity in pooled cash and investments	-	394	-	11,650	-
Receivables, net of allowances	-	-	-	-	-
Accounts receivable	-	-	-	-	6,008
Contracts receivable	-	-	-	-	-
Accrued interest and other	-	-	1	-	151
Due from primary government	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	2	-
Restricted assets	-	-	-	-	-
Investments	-	-	-	-	-
Other receivables	-	-	-	1	-
Total current assets	<u>460</u>	<u>2,688</u>	<u>603</u>	<u>13,433</u>	<u>31,753</u>
<b>Noncurrent Assets</b>					
Investments	-	-	-	-	-
Assessments receivable	-	-	-	-	-
Deferred charges for issuance cost	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Land	-	315	-	637	3,648
Buildings, improvements and equipment	1,200	-	-	-	60
Plants, lines and rights	-	-	-	-	-
Total capital assets	<u>1,200</u>	<u>315</u>	<u>-</u>	<u>637</u>	<u>3,708</u>
Less accumulated depreciation	-	-	-	-	-
Buildings, improvements and equipment	(288)	-	-	-	(12)
Accumulated depreciation	<u>(288)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12)</u>
Net capital assets	<u>912</u>	<u>315</u>	<u>-</u>	<u>637</u>	<u>3,696</u>
Total noncurrent assets	<u>912</u>	<u>315</u>	<u>-</u>	<u>637</u>	<u>3,696</u>
<b>Total assets</b>	<u>1,372</u>	<u>3,003</u>	<u>603</u>	<u>14,070</u>	<u>35,449</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	-	11	-	-	368
Accrued payroll liabilities	-	-	-	-	-
Accrued interest payable	10	-	-	-	243
Contracts and retainages payable	4,800	1,007	-	-	-
Notes payable	286	-	-	-	-
Due to other governments	-	-	-	-	-
Compensated absences	-	-	-	-	-
Other liabilities	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Current liabilities payable from restricted assets	-	-	-	-	-
Revenue bonds payable	-	-	-	-	850
Advances and deposits	-	-	-	-	-
Total current liabilities	<u>5,096</u>	<u>1,018</u>	<u>-</u>	<u>-</u>	<u>1,461</u>
<b>Noncurrent liabilities</b>					
Notes payable	-	-	-	-	-
Revenue bonds payable	-	-	-	-	14,160
Contracts payable	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,160</u>
<b>Total liabilities</b>	<u>5,096</u>	<u>1,018</u>	<u>-</u>	<u>-</u>	<u>15,621</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	-	-	-	-	3,452
Restricted net assets	-	-	-	-	-
Restricted for debt service	-	-	-	-	3,161
Restricted for maintenance and operations	-	-	-	-	-
Restricted for capital improvements	-	-	-	13,082	-
Other restricted	-	-	-	-	-
Unrestricted (deficit)	(3,724)	1,985	603	988	13,215
<b>Total net assets (deficit)</b>	<u>\$ (3,724)</u>	<u>\$ 1,985</u>	<u>\$ 603</u>	<u>\$ 14,070</u>	<u>\$ 19,828</u>

(Continued)

	Greater Houston Convention & Visitor's Bureau	Gulfgate Redevelopment Authority	Houston Area Library Automated Network Bd	Houston Arts Alliance	Houston Business Development Inc.	Houston Downtown Park Corporation	Houston Parks Board, Inc.	Houston Parks Board LGC, Inc	Houston Public Library Foundation
\$	6,294	\$ 1,197	\$ -	\$ 1,525	\$ 1,032	\$ 1	\$ 952	\$ -	\$ 382
	-	-	2,815	1,842	-	-	-	-	-
	4,350	240	-	3,007	-	-	427	-	-
	-	-	-	-	765	-	-	-	-
	-	-	-	-	-	-	121	-	3,995
	6	-	-	-	-	-	-	356	-
	161	-	-	24	-	-	-	-	-
	-	-	-	-	-	-	13,223	-	-
	-	-	-	130	91	-	-	-	-
	10,811	1,437	2,815	6,528	1,888	1	14,723	356	4,377
	-	-	-	-	1,417	-	-	-	15,631
	-	-	-	-	2,885	-	-	-	-
	-	-	-	-	4,302	-	-	-	15,631
	-	5,417	-	-	692	56,986	12,246	4,968	-
	765	-	-	363	9,673	23,148	-	-	-
	-	-	-	-	-	-	-	-	319
	765	5,417	-	363	10,365	80,134	12,246	4,968	319
	(625)	-	-	(294)	(6,548)	(1,480)	-	-	-
	(625)	-	-	(294)	(6,548)	(1,480)	-	-	-
	140	5,417	-	69	3,817	78,654	12,246	4,968	319
	140	5,417	-	69	8,119	78,654	12,246	4,968	15,950
	10,951	6,854	2,815	6,597	10,007	78,655	26,969	5,324	20,327
	1,366	15	16	325	55	-	97	-	37
	-	-	49	-	-	-	-	-	-
	429	767	-	-	53	100	-	-	-
	-	87	-	-	-	-	494	356	-
	-	425	-	-	587	2,430	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	22	-	-	-	-
	190	-	-	2,991	-	-	-	-	-
	421	-	-	70	1	158	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	2,406	1,294	65	3,386	718	2,688	591	356	37
	-	6,243	-	-	3,096	19,071	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	48	-	-	32
	-	6,243	-	-	3,096	19,119	-	-	32
	2,406	7,537	65	3,386	3,814	21,807	591	356	69
	-	2,298	-	-	3,520	57,054	-	4,968	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	8,817	-	-
	-	-	-	-	-	-	-	-	-
	8,545	(2,981)	2,750	2,386	4,498	-	7,285	-	19,977
	-	-	-	825	(1,825)	(206)	10,276	-	281
\$	8,545	\$ (683)	\$ 2,750	\$ 3,211	\$ 6,193	\$ 56,848	\$ 26,378	\$ 4,968	\$ 20,258

(Continued)

CITY OF HOUSTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL  
Combining Statement of Net Assets  
June 30, 2010  
amounts expressed in thousands

	Lamar Terrace Public Improvement District	Land Assemblage Redevelopment Authority	Leland Woods Redevelopment Authority I	Leland Woods Redevelopment Authority II	Main Street Market Square Redevelopment Authority
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ -	\$ 5,672	\$ 130	\$ 53	\$ 6,884
Equity in pooled cash and investments	51	-	-	-	6,782
Receivables, net of allowances					
Accounts receivable	26	134	-	-	950
Contracts receivable	-	-	-	-	-
Accrued interest and other	-	-	-	-	-
Due from primary government	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	1	2	-	-	-
Restricted assets					
Investments	-	6,441	-	-	-
Other receivables	-	-	-	-	-
<b>Total current assets</b>	<b>78</b>	<b>12,249</b>	<b>130</b>	<b>53</b>	<b>14,616</b>
<b>Noncurrent Assets</b>					
<b>Restricted assets</b>					
Investments	-	-	-	-	-
Assessments receivable	-	-	-	-	-
Deferred charges for issuance cost	-	-	-	-	403
<b>Total noncurrent restricted assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>403</b>
Land	-	-	874	1,016	-
Buildings, improvements and equipment	-	-	-	-	-
Plants, lines and rights	-	-	-	-	-
<b>Total capital assets</b>	<b>-</b>	<b>-</b>	<b>874</b>	<b>1,016</b>	<b>-</b>
Less accumulated depreciation	-	-	-	-	-
Buildings, improvements and equipment	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
<b>Net capital assets</b>	<b>-</b>	<b>-</b>	<b>874</b>	<b>1,016</b>	<b>-</b>
<b>Total noncurrent assets</b>	<b>-</b>	<b>-</b>	<b>874</b>	<b>1,016</b>	<b>403</b>
<b>Total assets</b>	<b>78</b>	<b>12,249</b>	<b>1,004</b>	<b>1,069</b>	<b>15,019</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	-	82	9	21	174
Accrued payroll liabilities	11	-	-	-	-
Accrued interest payable	-	-	-	3	479
Contracts and retainages payable	-	-	-	-	-
Notes payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Compensated absences	-	-	-	-	-
Other liabilities	-	-	-	-	-
Deferred revenue	26	-	-	-	-
Current liabilities payable from restricted assets					
Revenue bonds payable	-	-	-	-	575
Advances and deposits	-	-	-	-	-
<b>Total current liabilities</b>	<b>37</b>	<b>82</b>	<b>9</b>	<b>24</b>	<b>1,228</b>
<b>Noncurrent liabilities</b>					
Notes payable	-	-	-	873	-
Revenue bonds payable	-	-	-	-	26,345
Contracts payable	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total Noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>873</b>	<b>26,345</b>
<b>Total liabilities</b>	<b>37</b>	<b>82</b>	<b>9</b>	<b>897</b>	<b>27,573</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	-	-	874	143	-
Restricted net assets					
Restricted for debt service	-	-	-	-	4,849
Restricted for maintenance and operations	-	-	-	-	-
Restricted for capital improvements	-	-	-	-	-
Other restricted	-	10,425	-	-	-
Unrestricted (deficit)	41	1,742	121	29	(17,403)
<b>Total net assets (deficit)</b>	<b>\$ 41</b>	<b>\$ 12,167</b>	<b>\$ 995</b>	<b>\$ 172</b>	<b>\$ (12,554)</b>



Memorial City Redevelopment Authority	Memorial- Heights Redevelopment Authority	Midtown Redevelopment Authority	Miller Theatre Advisory Board, Inc.	Old Sixth Ward Redevelopment Authority	OST/Alameda Corridors Redevelopment Authority
\$ 12,076	4,599	\$ 6,397	\$ 784	\$ 2,753	\$ 221
4,703	-	20,171	1	-	11,017
-	-	7,453	1,195	-	-
-	-	-	-	-	-
-	-	-	-	-	258
-	-	21,060	-	-	1,104
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	27	-	-
<u>16,779</u>	<u>4,599</u>	<u>55,081</u>	<u>2,007</u>	<u>2,753</u>	<u>12,600</u>
-	-	-	-	-	-
-	-	-	-	-	-
659	-	1,491	-	-	398
<u>659</u>	<u>-</u>	<u>1,491</u>	<u>-</u>	<u>-</u>	<u>398</u>
-	-	3,692	-	-	3,418
-	-	6,240	-	-	31
-	-	-	-	-	-
-	-	9,932	-	-	3,449
-	-	(1,892)	-	-	(21)
-	-	(1,892)	-	-	(21)
-	-	8,040	-	-	3,428
659	-	9,531	-	-	3,826
<u>17,438</u>	<u>4,599</u>	<u>64,612</u>	<u>2,007</u>	<u>2,753</u>	<u>16,426</u>
514	550	887	15	310	532
-	-	-	-	-	-
290	58	1,242	-	56	94
55	231	-	49	-	-
-	380	-	-	95	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	193	-	-	-
-	-	-	-	-	-
360	-	2,265	-	-	395
-	-	-	-	-	-
<u>1,219</u>	<u>1,219</u>	<u>4,587</u>	<u>64</u>	<u>461</u>	<u>1,021</u>
-	2,780	-	-	2,731	-
20,295	-	47,140	-	-	5,455
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>20,295</u>	<u>2,780</u>	<u>47,140</u>	<u>-</u>	<u>2,731</u>	<u>5,455</u>
<u>21,514</u>	<u>3,999</u>	<u>51,727</u>	<u>64</u>	<u>3,192</u>	<u>6,476</u>
-	-	5,694	-	-	4,533
2,187	-	9,663	-	-	1,351
-	-	-	-	-	-
-	-	4,193	-	-	-
-	-	19,267	1,585	-	-
(6,263)	600	(25,932)	358	(439)	4,066
<u>\$ (4,076)</u>	<u>\$ 600</u>	<u>\$ 12,885</u>	<u>\$ 1,943</u>	<u>\$ (439)</u>	<u>\$ 9,950</u>

(Continued)

CITY OF HOUSTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL  
Combining Statement of Net Assets  
June 30, 2010  
amounts expressed in thousands

	Saint George Place Redevelopment Authority	South Post Oak Redevelopment Authority	Southwest Houston Redevelopment Authority	Upper Kirby Redevelopment Authority	Uptown Development Authority	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash	\$ 554	\$ 623	\$ 399	\$ 127	\$ 22,749	\$ 106,134
Equity in pooled cash and investments	1,417	-	25,323	5,985	-	92,151
Receivables, net of allowances	-	-	-	-	-	-
Accounts receivable	234	211	371	-	-	24,606
Contracts receivable	-	-	-	-	-	765
Accrued interest and other	-	-	-	-	-	4,526
Due from primary government	-	-	-	-	-	356
Inventory	-	-	-	-	-	22,170
Prepaid items	-	-	1	-	-	191
<b>Restricted assets</b>						
Investments	-	-	-	-	-	19,664
Other receivables	-	-	-	-	-	249
<b>Total current assets</b>	<b>2,205</b>	<b>834</b>	<b>26,094</b>	<b>6,112</b>	<b>22,749</b>	<b>270,812</b>
<b>Noncurrent Assets</b>						
<b>Restricted assets</b>						
Investments	-	-	-	-	-	17,048
Assessments receivable	-	-	-	-	-	2,885
Deferred charges for issuance cost	189	-	838	133	1,289	5,400
<b>Total noncurrent restricted assets</b>	<b>189</b>	<b>-</b>	<b>838</b>	<b>133</b>	<b>1,289</b>	<b>25,333</b>
<b>Land</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>13,509</b>	<b>9,080</b>	<b>116,558</b>
Buildings, improvements and equipment	-	-	-	3,449	-	44,929
Plants, lines and rights	-	-	-	-	-	319
<b>Total property, plant &amp; equipment</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>13,509</b>	<b>12,529</b>	<b>161,806</b>
Less accumulated depreciation and	-	-	-	-	(331)	(11,491)
Buildings, improvements and equipment	-	-	-	-	(331)	(11,491)
<b>Accumulated depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(331)</b>	<b>(11,491)</b>
<b>Net capital assets</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>13,509</b>	<b>12,198</b>	<b>150,315</b>
<b>Total noncurrent assets</b>	<b>189</b>	<b>-</b>	<b>898</b>	<b>13,642</b>	<b>13,487</b>	<b>175,648</b>
<b>Total assets</b>	<b>2,394</b>	<b>834</b>	<b>26,992</b>	<b>19,754</b>	<b>36,236</b>	<b>446,460</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts payable	36	7	624	1,730	3,163	10,944
Accrued payroll liabilities	-	-	-	-	-	60
Accrued interest payable	33	-	291	-	1,880	6,028
Contracts and retainages payable	-	-	-	-	-	7,079
Notes payable	-	-	-	-	295	4,498
Due to other governments	-	-	-	-	3,903	3,903
Compensated absences	-	-	-	-	-	22
Other liabilities - current	-	121	49	-	-	3,544
Deferred revenue	234	-	-	-	-	910
<b>Current liabilities payable from restricted assets</b>						
Revenue bonds payable	120	-	555	-	1,670	6,790
Advances and deposits	-	572	-	-	-	572
<b>Total current liabilities</b>	<b>423</b>	<b>700</b>	<b>1,519</b>	<b>1,730</b>	<b>10,911</b>	<b>44,350</b>
<b>Noncurrent liabilities</b>						
Notes payable	8,267	-	-	5,694	314	49,069
Revenue bonds payable	1,780	-	24,795	-	72,540	212,510
Contracts payable	-	4,625	-	-	-	4,625
Other long-term liabilities	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	80
<b>Total Noncurrent liabilities</b>	<b>10,047</b>	<b>4,625</b>	<b>24,795</b>	<b>5,694</b>	<b>72,854</b>	<b>266,284</b>
<b>Total liabilities</b>	<b>10,470</b>	<b>5,325</b>	<b>26,314</b>	<b>7,424</b>	<b>83,765</b>	<b>310,634</b>
<b>Net Assets</b>						
Investment in capital assets, net of related debt	-	-	1	13,509	12,199	108,245
<b>Restricted net assets</b>						
Restricted for debt service	1,376	-	2,656	-	11,461	36,704
Restricted for maintenance and operations	-	-	-	-	-	8,817
Restricted for capital improvements	-	-	12,759	-	-	30,034
Other restricted	39	-	-	-	-	65,462
Unrestricted	(9,491)	(4,491)	(14,738)	(1,179)	(71,189)	(113,436)
<b>Total net assets (deficit)</b>	<b>\$ (8,076)</b>	<b>\$ (4,491)</b>	<b>\$ 678</b>	<b>\$ 12,330</b>	<b>\$ (47,529)</b>	<b>\$ 135,826</b>

(Continued)

**CITY OF HOUSTON, TEXAS**

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CITY OF HOUSTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL  
Combining Statement of Activities  
For the Year Ended June 30, 2010  
amounts expressed in thousands

Net (Expense) Revenue and Change in Net Assets

Functions/Programs	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Park Redevelopment Authority	East Downtown Redevelopment Authority
<b>Component Units</b>							
City Park Redevelopment Authority	\$ 225	\$ -	\$ -	\$ -	\$ -	\$ (225)	\$ -
East Downtown Redevelopment Authority	286	-	-	-	-	-	(286)
Fifth Ward Redevelopment Authority	196	-	-	-	-	-	-
Fourth Ward Redevelopment Authority	2,136	-	-	-	-	-	-
Greater Greenspoint Redevelopment Authority	6,446	-	-	-	-	-	-
Greater Houston Convention and Visitors Bureau	15,445	-	575	16,142	-	-	-
Gulfgate Redevelopment Authority	270	-	-	-	-	-	-
Houston Area Library Automated Network	1,846	-	-	1,862	-	-	-
Houston Arts Alliance	14,850	-	-	10,651	-	-	-
Houston Business Development Corporation	3,518	-	1,250	36	-	-	-
Houston Downtown Park Corporation	1,286	-	1,080	9	-	-	-
Houston Parks Board, Inc.	6,066	-	2,468	5,044	-	-	-
Houston Parks Board, LGC, Inc.	2,294	-	2,124	553	-	-	-
Houston Public Library Foundation	1,893	-	-	835	-	-	-
Lamar Terrace Public Improvement District	-	-	-	-	-	-	-
Land Assemblage Redevelopment Authority	2,506	-	-	5,772	-	-	-
Leland Woods Redevelopment Authority I	44	-	-	964	-	-	-
Leland Woods Redevelopment Authority II	29	-	-	200	-	-	-
Main Street Market Square Redevelopment Authority	14,170	-	-	-	-	-	-
Memorial City Redevelopment Authority	4,630	-	-	-	-	-	-
Memorial-Heights Redevelopment Authority	4,512	-	-	-	-	-	-
Midtown Redevelopment Authority	11,717	-	-	514	-	-	-
Miller Theatre Advisory Board, Inc.	2,324	-	-	2,076	-	-	-
Old Sixth Ward Redevelopment Authority	1,320	-	-	-	-	-	-
OST/Almeda Corridors Redevelopment Authority	6,278	-	-	-	-	-	-
Saint George Place Redevelopment Authority	3,897	-	-	-	-	-	-
South Post Oak Redevelopment Authority	263	-	-	-	-	-	-
Southwest Houston Redevelopment Authority	2,033	-	-	-	-	-	-
Upper Kirby Redevelopment Authority	5,629	-	-	1,500	-	-	-
Uptown Development Authority	25,592	-	-	-	-	-	-
<b>Total component units</b>	<u>141,701</u>	<u>\$ -</u>	<u>7,497</u>	<u>46,158</u>	<u>\$ -</u>	<u>(225)</u>	<u>(286)</u>
<b>General Revenues:</b>							
Taxes							
Property Taxes - general purposes / tax increments						457	1,954
Unrestricted investment earnings (loss)						3	10
Other						-	-
Special Items - Loss on sale of assets						-	-
Transfers						-	-
<b>Total general revenues, special items, and transfers</b>						<u>460</u>	<u>1,964</u>
Change in net assets						235	1,678
Net Assets (deficit) beginning						(3,959)	307
New Component Unit & Restatement						-	-
Net Assets (deficit) ending						<u>\$ (3,724)</u>	<u>\$ 1,985</u>

(Continued)

Net (Expense) Revenue and Change in Net Assets

Fifth Ward Redevelopment Authority	Fourth Ward Redevelopment Authority	Greater Greenspoint Redevelopment Authority	Greater Houston Convention & Visitor's Bureau	Gulfgate Redevelopment Authority	Houston Area Library Automated Network	Houston Arts Alliance	Houston Business Development Inc.	Houston Downtown Park Corporation	Houston Parks Board, Inc
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(196)	(2,136)	(6,446)	1,272	(270)	16	(4,199)	(2,232)	(197)	1,446
(196)	(2,136)	(6,446)	1,272	(270)	16	(4,199)	(2,232)	(197)	1,446
375	2,003	9,436	-	1,371	-	-	-	-	-
2	308	154	202	-	69	3,781	299	-	598
-	-	-	-	10	-	-	79	-	302
-	-	-	-	(353)	-	-	-	-	(333)
377	2,311	9,590	202	1,028	69	3,781	378	-	567
181	175	3,144	1,474	758	85	(418)	(1,854)	(197)	2,013
422	13,895	14,308	7,071	(963)	2,665	3,629	8,047	57,045	23,270
-	-	2,376	-	(478)	-	-	-	-	1,095
\$ 603	\$ 14,070	\$ 19,828	\$ 8,545	\$ (683)	\$ 2,750	\$ 3,211	\$ 6,193	\$ 56,848	\$ 26,378

(Continued)

CITY OF HOUSTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL  
Combining Statement of Activities  
For the Year Ended June 30, 2010  
amounts expressed in thousands

Net (Expense) Revenue and Change in net Assets

Functions/Programs	Houston Parks Board LGC, Inc.	Houston Public Library Foundation	Lamar Terrace Public Improvement District	Land Assemblage Redevelopment Authority	Leland Woods Redevelopment Authority I	Leland Woods Redevelopment Authority II
<b>Component Units</b>						
City Park Redevelopment Authority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
East Downtown Redevelopment Authority	-	-	-	-	-	-
Fifth Ward Redevelopment Authority	-	-	-	-	-	-
Fourth Ward Redevelopment Authority	-	-	-	-	-	-
Greater Greenspoint Redevelopment Authority	-	-	-	-	-	-
Greater Houston Convention and Visitors Bureau	-	-	-	-	-	-
Gulfgate Redevelopment Authority	-	-	-	-	-	-
Houston Area Library Automated Network	-	-	-	-	-	-
Houston Arts Alliance	-	-	-	-	-	-
Houston Business Development Corporation	-	-	-	-	-	-
Houston Downtown Park Corporation	-	-	-	-	-	-
Houston Parks Board, Inc.	-	-	-	-	-	-
Houston Parks Board, LGC, Inc.	383	-	-	-	-	-
Houston Public Library Foundation	-	(1,058)	-	-	-	-
Lamar Terrace Public Improvement District	-	-	-	-	-	-
Land Assemblage Redevelopment Authority	-	-	-	3,266	-	-
Leland Woods Redevelopment Authority I	-	-	-	-	920	-
Leland Woods Redevelopment Authority II	-	-	-	-	-	171
Main Street Market Square Redevelopment Authority	-	-	-	-	-	-
Memorial City Redevelopment Authority	-	-	-	-	-	-
Memorial-Heights Redevelopment Authority	-	-	-	-	-	-
Midtown Redevelopment Authority	-	-	-	-	-	-
Miller Theatre Advisory Board, Inc.	-	-	-	-	-	-
Old Sixth Ward Redevelopment Authority	-	-	-	-	-	-
OST/Almeda Corridors Redevelopment Authority	-	-	-	-	-	-
Saint George Place Redevelopment Authority	-	-	-	-	-	-
South Post Oak Redevelopment Authority	-	-	-	-	-	-
Southwest Houston Redevelopment Authority	-	-	-	-	-	-
Upper Kirby Redevelopment Authority	-	-	-	-	-	-
Uptown Development Authority	-	-	-	-	-	-
<b>Total component units</b>	<u>383</u>	<u>(1,058)</u>	<u>-</u>	<u>3,266</u>	<u>920</u>	<u>171</u>
<b>General Revenues:</b>						
Taxes	-	-	-	-	74	-
Property Taxes - general purposes / tax increments	-	-	-	-	-	-
Unrestricted investment earnings (loss)	-	1,827	1	4	1	1
Other	-	-	-	311	-	-
Special Items - Loss on sale of assets	54	-	-	-	-	-
Transfers	-	-	-	-	-	-
<b>Total general revenues, special items, and transfers</b>	<u>54</u>	<u>1,827</u>	<u>1</u>	<u>315</u>	<u>75</u>	<u>1</u>
Change in net assets	437	769	1	3,581	995	172
Net Assets (deficit) beginning	4,531	19,489	40	8,586	-	-
New Component Unit & Restatement	-	-	-	-	-	-
Net Assets (deficit) ending	<u>\$ 4,968</u>	<u>\$ 20,258</u>	<u>\$ 41</u>	<u>\$ 12,167</u>	<u>\$ 995</u>	<u>\$ 172</u>

(Continued)



**DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL**  
**Combining Statement of Activities**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*

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

<b>Functions/Programs</b>	<b>South Post Oak Redevelopment Authority</b>	<b>Southwest Houston Redevelopment Authority</b>	<b>Upper Kirby Redevelopment Authority</b>	<b>Uptown Development Authority</b>	<b>Total</b>
<b>Component Units</b>					
City Park Redevelopment Authority	\$ -	\$ -	\$ -	\$ -	\$ (225)
East Downtown Redevelopment Authority	-	-	-	-	(286)
Fifth Ward Redevelopment Authority	-	-	-	-	(196)
Fourth Ward Redevelopment Authority	-	-	-	-	(2,136)
Greater Greenspoint Redevelopment Authority	-	-	-	-	(6,446)
Greater Houston Convention and Visitors Bureau	-	-	-	-	1,272
Gulfgate Redevelopment Authority	-	-	-	-	(270)
Houston Area Library Automated Network	-	-	-	-	16
Houston Arts Alliance	-	-	-	-	(4,199)
Houston Business Development Corporation	-	-	-	-	(2,232)
Houston Downtown Park Corporation	-	-	-	-	(197)
Houston Parks Board, Inc.	-	-	-	-	1,446
Houston Parks Board, LGC, Inc.	-	-	-	-	383
Houston Public Library Foundation	-	-	-	-	(1,058)
Lamar Terrace Public Improvement District	-	-	-	-	-
Land Assemblage Redevelopment Authority	-	-	-	-	3,266
Leland Woods Redevelopment Authority I	-	-	-	-	920
Leland Woods Redevelopment Authority II	-	-	-	-	171
Main Street Market Square Redevelopment Authority	-	-	-	-	(14,170)
Memorial City Redevelopment Authority	-	-	-	-	(4,630)
Memorial-Heights Redevelopment Authority	-	-	-	-	(4,512)
Midtown Redevelopment Authority	-	-	-	-	(11,203)
Miller Theatre Advisory Board, Inc.	-	-	-	-	(248)
Old Sixth Ward Redevelopment Authority	-	-	-	-	(1,320)
OST/Almeda Corridors Redevelopment Authority	-	-	-	-	(6,278)
Saint George Place Redevelopment Authority	-	-	-	-	(3,897)
South Post Oak Redevelopment Authority	(263)	-	-	-	(263)
Southwest Houston Redevelopment Authority	-	(2,033)	-	-	(2,033)
Upper Kirby Redevelopment Authority	-	-	(4,129)	-	(4,129)
Uptown Development Authority	-	-	-	(25,592)	(25,592)
<b>Total component units</b>	<u>(263)</u>	<u>(2,033)</u>	<u>(4,129)</u>	<u>(25,592)</u>	<u>(88,046)</u>
<b>General Revenues:</b>					
Taxes					
Property Taxes - general purposes / tax increments	778	5,081	5,468	17,546	82,303
Unrestricted investment earnings	5	80	30	101	3,947
Other	-	-	104	-	5,355
Special Items - Loss on sale of assets	-	-	-	-	54
Transfers	-	-	-	-	(686)
<b>Total general revenues, special items, and transfers</b>	<u>783</u>	<u>5,161</u>	<u>5,602</u>	<u>17,647</u>	<u>90,973</u>
Change in net assets	520	3,128	1,473	(7,945)	2,927
Net Assets (deficit) beginning	(5,011)	(2,450)	10,857	(39,584)	130,606
New Component Unit & Restatement	-	-	-	-	2,293
Net Assets ending	<u>\$ (4,491)</u>	<u>\$ 678</u>	<u>\$ 12,330</u>	<u>\$ (47,529)</u>	<u>\$ 135,826</u>



**CITY OF HOUSTON, TEXAS**  
**DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS TYPE**  
**Combining Statement of Net Assets**  
**June 30, 2010**  
*amounts expressed in thousands*

	<b>Houston Convention Center Hotel Corporation</b>	<b>Houston Housing Finance Corp</b>	<b>Houston Zoo Inc.</b>	<b>Total</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash	\$ 6,140	\$ 20,893	\$ 10,033	\$ 37,066
Investments	55,653	3,000	-	58,653
Receivables, net of allowances				
Accounts receivable	3,491	4,685	12,784	20,960
Accrued interest and other	-	73	-	73
Due from other governments	1,765	-	-	1,765
Inventory	254	-	-	254
Prepaid items	1,096	15	388	1,499
Restricted assets				
Investments	-	-	16,239	16,239
Other receivables	-	780	-	780
Total current assets	<u>68,399</u>	<u>29,446</u>	<u>39,444</u>	<u>137,289</u>
<b>Noncurrent Assets</b>				
Accrued interest receivable	-	4	-	4
Receivable and deposits	-	6,202	-	6,202
Deferred charges for issuance cost	1,834	-	-	1,834
Other long-term receivables	-	4,200	-	4,200
Total noncurrent assets	<u>1,834</u>	<u>10,406</u>	<u>-</u>	<u>12,240</u>
<b>Capital assets</b>				
Land	11,488	-	-	11,488
Buildings, improvements and equipment	285,733	5,989	29,429	321,151
Construction in progress	-	-	22,437	22,437
Total capital assets	<u>297,221</u>	<u>5,989</u>	<u>51,866</u>	<u>355,076</u>
<b>Less accumulated depreciation</b>				
Buildings, improvements and equipment	<u>(75,621)</u>	<u>(3,224)</u>	<u>(9,210)</u>	<u>(88,055)</u>
Accumulated depreciation	<u>(75,621)</u>	<u>(3,224)</u>	<u>(9,210)</u>	<u>(88,055)</u>
Net capital assets	<u>221,600</u>	<u>2,765</u>	<u>42,656</u>	<u>267,021</u>
Total noncurrent assets	<u>223,434</u>	<u>13,171</u>	<u>42,656</u>	<u>279,261</u>
<b>Total assets</b>	<u>291,833</u>	<u>42,617</u>	<u>82,100</u>	<u>416,550</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	7,759	71	657	8,487
Accrued payroll liabilities	-	-	901	901
Notes payable	11,445	-	-	11,445
Deferred revenue	737	-	331	1,068
Accrued interest payable	2,886	-	-	2,886
Total current liabilities	<u>22,827</u>	<u>71</u>	<u>1,889</u>	<u>24,787</u>
<b>Noncurrent liabilities</b>				
Due to City of Houston	255,727	-	-	255,727
Other long-term liabilities	4,738	29	-	4,767
Deferred revenue	13,924	-	-	13,924
Total noncurrent liabilities	<u>274,389</u>	<u>29</u>	<u>-</u>	<u>274,418</u>
<b>Total liabilities</b>	<u>297,216</u>	<u>100</u>	<u>1,889</u>	<u>299,205</u>
<b>Net assets</b>				
Investment in capital assets, net of related debt	(35,453)	-	-	(35,453)
Restricted net assets				
Restricted for debt service	7,952	-	-	7,952
Other restricted	-	32	44,471	44,503
Unrestricted (deficit)	22,118	42,485	35,740	100,343
<b>Total net assets (deficit)</b>	<u>\$ (5,383)</u>	<u>\$ 42,517</u>	<u>\$ 80,211</u>	<u>\$ 117,345</u>

**CITY OF HOUSTON, TEXAS**  
**DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS-TYPE**  
**Combining Statement of Activities**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Component Units</b>			
Houston Convention Center Hotel Corp.	66,118	65,710	-
Houston Downtown Park Corporation	-	-	-
Houston Housing Finance Corp.	1,898	483	-
Houston Zoo Inc.	24,641	24,131	6,546
Totals	<u>\$ 92,657</u>	<u>\$ 90,324</u>	<u>\$ 6,546</u>

**General Revenues:**

Taxes  
Property Taxes levied for general purposes/tax increments  
Unrestricted investment earnings  
Other  
**Total general revenues, special items, and transfers**  
Change in net assets  
Net Assets (deficit) beginning  
New Component Unit & Restatement  
Net Assets (deficit) ending

(Continued)

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

<b>Houston Convention Center Hotel</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Inc.</b>	<b>Total</b>
(408)	-	-	(408)
-	-	-	-
-	(1,415)	-	(1,415)
-	-	6,036	6,036
<u>(408)</u>	<u>(1,415)</u>	<u>6,036</u>	<u>4,213</u>
-	750	-	750
772	1,314	387	2,473
<u>8,175</u>	<u>-</u>	<u>-</u>	<u>8,175</u>
<u>8,947</u>	<u>2,064</u>	<u>387</u>	<u>11,398</u>
8,539	649	6,423	15,611
(13,922)	41,868	73,788	101,734
-	-	-	-
<u>\$ (5,383)</u>	<u>\$ 42,517</u>	<u>\$ 80,211</u>	<u>\$ 117,345</u>

**CITY OF HOUSTON, TEXAS**  
**DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS TYPE**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**  
*amounts expressed in thousands*

	<b>Houston Convention Center Hotel Corporation</b>	<b>Houston Housing Finance Corp.</b>	<b>Houston Zoo Inc.</b>	<b>Total Component Units</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 69,732	\$ 2,048	\$ 28,232	\$ 100,012
Payments to employees	(15,452)	-	(15,139)	(30,591)
Payments to suppliers	(34,438)	-	(8,491)	(42,929)
Other revenues (expenses)	-	(1,627)	(54)	(1,681)
Net cash provided by operating activities	<u>19,842</u>	<u>421</u>	<u>4,548</u>	<u>24,811</u>
<b>Cash flows from investing activities</b>				
Advances on long-term receivables	-	(1,774)	-	(1,774)
Interest income on investments	771	5,913	-	6,684
Purchase of investments	(33,766)	(18,931)	-	(52,697)
Proceeds from sale of investments	32,660	33,274	-	65,934
Change in cash restricted for capital acquisition	-	-	13,967	13,967
Net cash provided by investing activities	<u>(335)</u>	<u>18,482</u>	<u>13,967</u>	<u>32,114</u>
<b>Cash flows from capital and related financing activities</b>				
Contributed capital	-	-	7,866	7,866
Acquisition of property, plant and equipment	(2,228)	-	(14,663)	(16,891)
Interest expense	(10,282)	-	-	(10,282)
Receipt of tax rebates	7,159	-	-	7,159
Payments to the City of Houston	(12,974)	-	-	(12,974)
Net cash provided by (used for) capital and related financing activities	<u>(18,325)</u>	<u>-</u>	<u>(6,797)</u>	<u>(25,122)</u>
<b>Cash flows from noncapital financing activities</b>				
Other revenues	-	-	28	28
Excess funds from Bond Series	-	1,460	-	1,460
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>1,460</u>	<u>28</u>	<u>1,488</u>
Net increase (decrease) in cash and cash equivalents	1,182	20,363	11,746	33,291
Cash and cash equivalents, July 1	4,958	530	10,917	16,405
<b>Cash and cash equivalents, June 30</b>	<u>\$ 6,140</u>	<u>\$ 20,893</u>	<u>\$ 22,663</u>	<u>\$ 49,696</u>
<b>Non cash transactions</b>				
Total non cash transactions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (Loss)	\$ 12,799	\$ 694	\$ 6,423	19,916
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	7,042	(284)	2,039	8,797
Other revenues	1,270	-	(2,536)	(1,266)
Changes in assets and liabilities:				
Accounts receivable	1,100	(36)	(105)	959
Inventory	76	-	-	76
Other assets	180	(15)	(229)	(64)
Accounts payable and accrued expenses	204	62	(1,168)	(902)
Accrued payroll liabilities	(2,492)	-	124	(2,368)
Other long-term liabilities	(337)	-	-	(337)
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 19,842</u>	<u>\$ 421</u>	<u>\$ 4,548</u>	<u>\$ 24,811</u>

# Statistical Section

## (Unaudited)

This part of the City's Statistical comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<b><u>Content</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	194
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	206
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
<b>Debt Capacity</b>	212
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	221
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
<b>Operating Information</b>	228
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

**CITY OF HOUSTON, TEXAS**  
**NET ASSETS BY COMPONENT**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Governmental Activities</b>									
Invested in capital assets, net of related debt	\$ 3,327,146	\$ 3,354,457	\$ 3,388,360	\$ 3,531,764	\$ 3,340,355	\$ 3,480,924	\$ 3,515,596	\$ 3,670,130	\$ 3,677,425
Restricted	210,954	197,977	205,999	168,803	159,092	170,297	213,567	161,147	199,459
Unrestricted	(192,498)	(185,622)	(386,480)	(861,603)	(727,282)	(969,830)	(1,310,289)	(1,629,514)	(1,928,202)
<b>Total governmental activities net assets</b>	<u>\$ 3,345,602</u>	<u>\$ 3,366,812</u>	<u>\$ 3,207,879</u>	<u>\$ 2,838,964</u>	<u>\$ 2,772,165</u>	<u>\$ 2,681,391</u>	<u>\$ 2,418,874</u>	<u>\$ 2,201,763</u>	<u>\$ 1,948,682</u>
<b>Business-type activities</b>									
Invested in capital assets, net of related debt	\$ 1,129,433	\$ 1,068,562	\$ 1,361,202	\$ 1,138,154	\$ 976,834	\$ 745,459	\$ 551,820	\$ 668,465	\$ 893,832
Restricted	1,206,782	1,006,121	501,271	461,738	545,792	641,613	784,895	824,219	842,298
Unrestricted	(248,143)	(70,890)	(12,537)	87,494	99,666	104,542	135,860	(17,815)	(102,094)
<b>Total business-type activities net assets</b>	<u>\$ 2,088,072</u>	<u>\$ 2,003,793</u>	<u>\$ 1,849,936</u>	<u>\$ 1,687,386</u>	<u>\$ 1,622,292</u>	<u>\$ 1,491,614</u>	<u>\$ 1,472,575</u>	<u>\$ 1,474,869</u>	<u>\$ 1,634,036</u>
<b>Primary government</b>									
Invested in capital assets, net of related debt	\$ 4,456,579	\$ 4,423,019	\$ 4,749,562	\$ 4,669,918	\$ 4,317,189	\$ 4,226,383	\$ 4,067,416	\$ 4,338,595	\$ 4,571,257
Restricted	1,417,736	1,204,098	707,270	630,541	704,884	811,910	998,462	985,366	1,041,757
Unrestricted	(440,641)	(256,512)	(399,017)	(774,109)	(627,616)	(865,288)	(1,174,429)	(1,647,329)	(2,030,296)
<b>Total primary government net assets</b>	<u>\$ 5,433,674</u>	<u>\$ 5,370,605</u>	<u>\$ 5,057,815</u>	<u>\$ 4,526,350</u>	<u>\$ 4,394,457</u>	<u>\$ 4,173,005</u>	<u>\$ 3,891,449</u>	<u>\$ 3,676,632</u>	<u>\$ 3,582,718</u>

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS**  
**CHANGES IN NET ASSETS**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Expenses</b>									
Governmental activities:									
General government	\$ 225,950	\$ 150,374	\$ 234,176	\$ 143,477	\$ 130,807	\$ 130,026	\$ 193,928	\$ 219,584	\$ 232,466
Public safety	616,324	818,129	902,527	1,127,663	1,102,253	1,230,266	1,400,837	1,460,992	1,485,999
Public works	293,757	238,323	251,423	282,767	266,723	275,165	317,749	417,953	305,768
Health	107,783	99,617	105,247	124,267	102,716	101,865	129,197	136,766	139,693
Housing and community development	57,482	48,393	62,956	78,867	318,450	80,171	59,182	62,793	96,349
Parks and recreation	91,034	84,446	63,156	83,945	72,309	85,274	102,758	97,398	93,676
Library	40,723	38,282	38,481	49,084	37,242	39,180	49,687	48,015	48,721
Retiree benefits	17,787	21,440	26,581	28,997	-	-	-	-	-
Interest in long-term debt	94,511	98,042	95,779	116,180	136,563	135,134	126,349	129,324	151,807
Depreciation and amortization	108,998	119,475	85,711	96,355	125,517	111,918	110,174	115,050	119,719
Total governmental activities expenses	<u>1,654,349</u>	<u>1,716,521</u>	<u>1,866,037</u>	<u>2,131,602</u>	<u>2,292,580</u>	<u>2,188,999</u>	<u>2,489,861</u>	<u>2,687,875</u>	<u>2,674,198</u>
Business-type activities :									
Airport System	227,248	265,987	315,929	406,908	431,392	442,757	459,521	472,253	504,472
Convention & Entertainment Facilities	83,141	76,760	91,588	133,622	99,271	105,846	110,576	114,110	105,703
Combined Utility System	636,824	649,247	681,201	762,209	752,122	818,831	846,368	842,518	849,674
Houston Area Water Corporation	17	153	160	169	17,428	20,568	17,485	14,851	9,949
Parking Management	-	-	-	-	-	-	-	4,919	6,969
Total business-type activities expenses	<u>947,230</u>	<u>992,147</u>	<u>1,088,878</u>	<u>1,302,908</u>	<u>1,300,213</u>	<u>1,388,002</u>	<u>1,433,950</u>	<u>1,448,667</u>	<u>1,476,767</u>
Total primary government expenses	<u>\$ 2,601,579</u>	<u>\$ 2,708,668</u>	<u>\$ 2,954,915</u>	<u>\$ 3,434,510</u>	<u>\$ 3,592,793</u>	<u>\$ 3,577,001</u>	<u>\$ 3,923,811</u>	<u>\$ 4,136,542</u>	<u>\$ 4,150,965</u>
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
General government	31,931	14,957	18,047	25,074	52,083	34,839	11,104	22,601	20,544
Public safety	117,234	122,864	137,886	139,814	103,719	110,222	131,221	136,450	143,274
Public works	19,282	40,413	42,695	43,652	49,797	53,856	53,375	46,404	45,011
Health	11,625	13,263	13,026	13,624	12,574	13,563	17,093	16,836	15,110
Housing	0	0	0	0	0	0	0	0	900
Parks and recreation	7,174	5,176	6,122	6,009	6,687	6,930	4,683	7,578	6,977
Library	1,416	1,211	1,329	1,187	1,010	675	1,035	1,056	1,261
Operating grants and contributions	148,432	137,590	143,864	162,310	467,956	246,737	232,203	393,157	346,945
Capital grants and contributions	27,051	6,123	46,337	37,591	69,438	101,099	76,497	45,354	109,190
Total governmental activities program revenues	<u>364,145</u>	<u>341,597</u>	<u>409,306</u>	<u>429,261</u>	<u>763,264</u>	<u>567,921</u>	<u>527,211</u>	<u>669,436</u>	<u>689,212</u>
Business-type activities:									
Charges for services:									
Airport System	227,455	240,767	270,413	353,641	393,861	416,138	447,176	386,777	406,579
Convention & Entertainment Facilities	15,521	17,010	17,145	19,175	19,599	20,554	22,306	20,902	31,833
Combined Utility System	543,396	539,317	531,208	598,874	642,662	615,465	648,269	687,238	691,162
Houston Area Water Corporation	-	-	-	-	-	-	13,045	13,250	-
Parking Management	-	-	-	-	-	-	-	-	13,676
Operating grants and contributions	-	-	22,516	4,297	4,020	2,740	4,749	4,574	10,710
Capital grants and contributions	65,579	48,339	42,000	106,484	109,728	61,717	132,728	192,815	58,672
Total business-type activities program revenues	<u>851,951</u>	<u>845,433</u>	<u>883,282</u>	<u>1,082,471</u>	<u>1,169,870</u>	<u>1,116,614</u>	<u>1,268,273</u>	<u>1,305,556</u>	<u>1,212,632</u>
Total primary government program revenues	<u>\$ 1,216,096</u>	<u>\$ 1,187,030</u>	<u>\$ 1,292,588</u>	<u>\$ 1,511,732</u>	<u>\$ 1,933,134</u>	<u>\$ 1,684,535</u>	<u>\$ 1,795,484</u>	<u>\$ 1,974,992</u>	<u>\$ 1,901,844</u>
Net (expense)/revenue									
Governmental activities	\$ (1,290,204)	\$ (1,374,924)	\$ (1,456,731)	\$ (1,702,341)	\$ (1,529,316)	\$ (1,621,078)	\$ (1,962,650)	\$ (2,018,439)	\$ (1,984,986)
Business-type activities	(95,279)	(146,714)	(205,596)	(220,437)	(130,343)	(271,388)	(165,677)	(143,111)	(264,135)
Total primary government net expense	<u>\$ (1,385,483)</u>	<u>\$ (1,521,638)</u>	<u>\$ (1,662,327)</u>	<u>\$ (1,922,778)</u>	<u>\$ (1,659,659)</u>	<u>\$ (1,892,466)</u>	<u>\$ (2,128,327)</u>	<u>\$ (2,161,550)</u>	<u>\$ (2,249,121)</u>

(Continued)



**CITY OF HOUSTON, TEXAS**  
**CHANGES IN NET ASSETS**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Revenues and Other Changes in Net Assets</b>									
Governmental Activities:									
Taxes									
Property taxes	\$ 626,850	\$ 639,888	\$ 645,536	\$ 664,831	\$ 700,788	\$ 738,578	\$ 829,837	\$ 890,308	\$ 895,779
Industrial assessments tax	15,642	15,014	15,167	14,635	14,314	15,823	17,787	19,133	15,817
Sales taxes	341,952	322,538	347,982	370,583	422,598	461,417	495,173	507,103	468,965
Franchise taxes	175,360	160,673	161,378	162,263	186,508	189,551	190,518	190,800	191,292
Mixed beverage taxes	7,514	7,572	8,095	8,343	9,000	9,713	10,479	10,587	10,382
Bingo taxes	251	246	253	270	279	279	256	226	195
Investment earnings	23,918	16,550	5,139	13,179	19,889	32,017	36,516	30,087	16,673
Other	24,822	42,074	31,894	27,652	33,674	23,261	58,743	66,459	53,101
Contributions	1,483	101,750	40,192	11,216	-	-	-	17,047	7,666
Special Items - gain (loss) on sale of assets	3,546	3,346	3,095	2,071	4,816	2,071	-	-	-
Transfers	99,817	86,583	39,067	58,383	70,651	57,594	60,824	69,578	72,035
Total governmental activities	<u>1,321,155</u>	<u>1,396,234</u>	<u>1,297,798</u>	<u>1,333,426</u>	<u>1,462,517</u>	<u>1,530,304</u>	<u>1,700,133</u>	<u>1,801,328</u>	<u>1,731,905</u>
Business-type activities:									
Hotel occupancy taxes	43,452	43,169	47,223	42,266	54,765	58,709	66,232	62,383	54,917
Investment earnings	103,072	68,632	25,965	43,866	54,212	88,658	96,492	88,737	57,736
Other	35,789	33,776	30,561	30,138	26,923	45,552	44,738	63,863	105,462
Contributions	-	4,979	-	-	-	-	-	-	-
Special Items - gain (loss) on sale of assets	(9,975)	(1,338)	(12,943)	-	-	5,385	-	-	-
Transfers	(99,817)	(86,583)	(39,067)	(58,383)	(70,651)	(57,594)	(60,824)	(69,578)	(72,035)
Total business-type activities	<u>72,521</u>	<u>62,635</u>	<u>51,739</u>	<u>57,887</u>	<u>65,249</u>	<u>140,710</u>	<u>146,638</u>	<u>145,405</u>	<u>146,080</u>
Total primary government	<u>\$ 1,393,676</u>	<u>\$ 1,458,869</u>	<u>\$ 1,349,537</u>	<u>\$ 1,391,313</u>	<u>\$ 1,527,766</u>	<u>\$ 1,671,014</u>	<u>\$ 1,846,771</u>	<u>\$ 1,946,733</u>	<u>\$ 1,877,985</u>
<b>Change in Net Assets</b>									
Governmental activities	\$ 30,951	\$ 21,310	\$ (158,933)	\$ (368,915)	\$ (66,799)	\$ (90,774)	\$ (262,517)	\$ (217,111)	\$ (253,081)
Business-type activities	(22,758)	(84,079)	(153,857)	(162,550)	(65,094)	(130,678)	(19,039)	2,294	(118,055)
Total primary government	<u>\$ 8,193</u>	<u>\$ (62,769)</u>	<u>\$ (312,790)</u>	<u>\$ (531,465)</u>	<u>\$ (131,893)</u>	<u>\$ (221,452)</u>	<u>\$ (281,556)</u>	<u>\$ (214,817)</u>	<u>\$ (371,136)</u>

**CITY OF HOUSTON, TEXAS**  
**FUND BALANCES, GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

	<b>2001</b>	<b>2002</b>	<b>2003</b>
General fund			
Reserved	\$ 9,518	\$ 30,756	\$ 30,935
Unreserved	81,482	85,282	105,101
Total general fund	\$ 91,000	\$ 116,038	\$ 136,036
All other governmental funds			
Reserved	\$ 93,246	\$ 122,480	\$ 169,660
Unreserved , reported in:			
Special revenue funds	28,981	48,428	63,997
Capital projects funds	56,417	62,864	-
Grant funds	-	-	-
Total all other governmental funds	\$ 178,644	\$ 233,772	\$ 233,657

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 24,947	\$ 27,449	\$ 51,671	\$ 21,489	\$ 22,040	\$ 22,836	\$ 23,003
110,778	142,695	198,759	256,610	309,466	281,111	201,019
<u>\$ 135,725</u>	<u>\$ 170,144</u>	<u>\$ 250,430</u>	<u>\$ 278,099</u>	<u>\$ 331,506</u>	<u>\$ 303,947</u>	<u>\$ 224,022</u>
\$ 171,252	\$ 200,374	\$ 179,267	\$ 193,924	\$ 235,074	\$ 201,334	\$ 237,112
55,760	67,691	66,407	94,056	119,482	111,454	82,713
-	-	-	-	-	-	-
-	-	9,963	8,258	7,553	(9,762)	19,196
<u>\$ 227,012</u>	<u>\$ 268,065</u>	<u>\$ 255,637</u>	<u>\$ 296,238</u>	<u>\$ 362,109</u>	<u>\$ 303,026</u>	<u>\$ 339,021</u>

**CITY OF HOUSTON**  
**GENERAL FUND BUDGET FOR FISCAL YEAR 2011**  
(amounts expressed in thousands)  
(unaudited)

<b>Budgeted Resources</b>	<b>Amount (in thousands)</b>
Revenues:	
Ad Valorem Taxes (current and delinquent)	\$ 846,136
Sales and Use Tax	473,754
Franchise Fees	188,736
Municipal Courts Fines and Forfeits	36,602
Miscellaneous	231,762
Total Current Revenues	1,776,990
Beginning Fund Balance as of July 1, 2010 (a)	160,117
Pension Bond Proceeds	-
Sale of Capital Assets	36,050
Transfers from Other Funds	28,736
<b>Total Budgeted Resources</b>	<b>\$ 2,001,893</b>
<b>Budgeted Expenditures</b>	
Administrative Services and Public Finance	\$ 104,077
Public Safety	1,142,411
Development and Maintenance Services	212,432
Human and Cultural Services	153,068
General Government	62,865
Transfers to Debt Service Fund	220,838
Transfer out	-
<b>Total Budgeted Expenditures</b>	1,895,691
Budgeted Ending Fund Balance as of June 30, 2011	106,202
<b>Total Budgeted Expenditures and Reserves</b>	<b>\$ 2,001,893</b>

(a) This amount represents an estimate of the beginning fund balance which was used in preparing the Fiscal Year 2011 Budget.

**CITY OF HOUSTON, TEXAS**  
**June 30, 2010**  
**CONTINUING DEBT DISCLOSURE INFORMATION**  
**(amounts expressed in thousands)**  
**(unaudited)**

**Capital Improvement Plan**

The 2011-2015 CIP consists of the projects and facilities described in the following chart. (The 2011-2015 CIP also includes proposed improvements for the Combined Utility System, Airport System and Convention and Entertainment Facilities, which are financed primarily with revenues of those enterprise systems and, therefore, are not included in the table below).

	<b>Amount (in thousands)</b>
Streets, Bridges and Traffic Control	\$ 799,245
Storm Sewers and Drainage	296,970
Parks and Recreation	72,167
Police Department	102,687
Fire Department	51,475
General Government	21,784
Public Library	43,869
Public Health	40,385
Solid Waste Management	10,600
Low Income Housing	<u>172,753</u>
Total	<u><u>\$ 1,611,935</u></u> (*)

(\*) The tax-supported component of the 2011-2015 CIP addresses a full range of capital facility and infrastructure improvements. The voter authorized improvements are expected to be initially financed with Commercial Paper Notes. The remaining amount is expected to be funded by grants, funds from agencies participating in joint capital improvement projects with the City and various other sources.

**General Fund Indirect Charges to Other City Funds**

A charge is made by the General Fund to the Water and Sewer System, Airport System, and Convention and Entertainment Facilities Funds, and to certain grant and special revenue funds for indirect charges incurred by the General Fund on behalf of such funds.

<b>Fiscal Year</b>	<b>Total Indirect Charges (in thousands)</b>
2010	\$ 16,012
2009	13,190
2008	10,950
2007	12,712
2006	14,895
2005	11,031

**CITY OF HOUSTON  
CONTINUING DEBT DISCLOSURE INFORMATION**

**Long Term Disability and Compensated Absence Liability  
(unaudited)**

<b>Long-Term Disability Fund</b>	Fiscal Year 2010 (in thousands)
Assets Available for Future Long-Term Disability Obligations	\$ 10,367
Claims Payable on Long-Term Disability Obligations	(7,904)
Unrestricted Net Assets	<u>\$ 2,463</u>

<b>Compensated Absence Liability</b>	Fiscal Year 2010 (in thousands)
General Fund Short-Term Liability	\$ 4,023
Other Governmental Short-Term Liability	135,283
Enterprise Funds Liability	31,590
Internal Service Funds Liability	175
Governmental Funds Long-Term Liability	288,453
Total	<u>\$ 459,524</u>

**General Fund Specific Charges to Other City Funds  
(unaudited)**

An additional charge made by the General Fund to the Combined Utility System, Airport, Convention and Entertainment Facilities Funds, the Capital Projects Fund and certain other funds of the City for specific services provided to such funds by the General Fund.

<b>Fiscal Year</b>	<b>Total Direct Charges for Specific Services (in thousands)</b>
2010	\$ 46,906
2009	47,890
2008	41,395
2007	42,052
2006	39,498
2005	61,234

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Revenues</b>				
Taxes	\$ 1,102,177	\$ 1,163,820	\$ 1,142,071	\$ 1,193,874
Licenses and permits	31,606	33,102	35,046	36,286
Intergovernmental	175,769	160,718	154,598	189,974
Charges for services	128,164	148,520	151,397	164,581
Fines	43,035	37,587	44,620	49,227
Investment earnings	29,547	21,450	16,550	5,139
Contributions	2,092	3,562	864	2,433
Other	36,872	30,305	46,030	32,740
Total revenues	<u>1,549,262</u>	<u>1,599,064</u>	<u>1,591,176</u>	<u>1,674,254</u>
<b>Expenditures</b>				
General Government	98,800	202,202	182,753	170,392
Public safety	684,644	752,281	840,490	838,472
Public Works	221,757	328,448	362,453	326,701
Health	55,857	104,777	96,633	99,377
Housing and Community Development	-	57,521	60,400	60,314
Parks and recreation	62,742	78,451	81,008	62,917
Library	36,240	40,036	42,473	40,746
Retiree benefits	11,675	17,787	21,440	26,581
Other Current Expenditures	100,772	-	-	-
Capital Outlay	209,068	47,005	24,637	35,213
Intergovernmental - grants	137,767	-	-	-
Debt Service				
Principal	114,425	110,060	120,754	115,319
Interest	93,928	87,830	87,438	100,006
Fiscal agent and fees	3,713	5,252	4,098	8,131
Advanced refunding escrow	-	-	-	-
Total expenditures	<u>1,831,388</u>	<u>1,831,650</u>	<u>1,924,577</u>	<u>1,884,169</u>
Excess of revenues over (under) expenditures	(282,126)	(232,586)	(333,401)	(209,915)
<b>Other financing sources (uses)</b>				
Transfers in	322,008	278,045	306,231	225,522
Transfers out	(192,427)	(178,228)	(219,648)	(184,004)
Proceeds from issuance of debt	366,709	173,494	209,931	150,594
Proceeds from refunded debt	-	437,243	285,801	572,020
Payment to escrow agent	(209,594)	(433,192)	(283,410)	(597,410)
Sale of land	-	-	-	-
Bond premium (discount)	-	-	-	36,237
Other financing sources (uses)	-	(119)	-	-
Proceeds from capital lease	-	-	54,379	-
Total other financing sources (uses)	<u>286,696</u>	<u>277,243</u>	<u>353,284</u>	<u>202,959</u>
Net change in fund balances	<u>\$ 4,570</u>	<u>\$ 44,657</u>	<u>\$ 19,883</u>	<u>\$ (6,956)</u>
Debt service as a percentage of noncapital expenditures	13.1%	13.4%	13.6%	13.4%



<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 1,227,388	\$ 1,338,651	\$ 1,425,575	\$ 1,545,102	\$ 1,617,937	\$ 1,579,516
40,240	42,524	55,912	62,132	58,126	55,275
187,372	512,279	319,864	300,717	435,715	403,519
156,290	133,161	119,250	112,554	121,418	124,790
53,464	51,441	57,305	57,001	57,037	60,036
13,179	19,889	32,017	36,516	30,087	16,673
1,780	-	-	-	737	20
30,445	34,971	23,555	55,535	62,714	55,599
<u>1,710,158</u>	<u>2,132,916</u>	<u>2,033,478</u>	<u>2,169,557</u>	<u>2,383,771</u>	<u>2,295,428</u>
163,738	241,772	236,638	144,337	178,064	197,803
907,201	1,012,747	1,088,922	1,107,522	1,221,713	1,244,163
316,428	335,598	330,296	281,433	398,506	285,517
104,389	97,237	96,063	108,830	123,421	126,968
57,076	323,199	89,320	77,702	79,215	100,712
70,720	79,602	82,648	77,354	80,438	78,717
39,273	39,570	48,842	36,555	39,248	38,711
28,997	42,203	18,801	18,506	18,463	18,897
-	-	-	-	-	-
39,396	61,606	57,337	332,655	372,472	396,877
-	-	-	-	-	-
139,607	220,510	172,166	197,790	487,690	186,251
94,188	113,556	122,680	129,992	133,288	146,986
3,316	6,302	4,661	3,700	8,949	6,599
-	-	-	-	-	-
<u>1,964,329</u>	<u>2,573,902</u>	<u>2,348,374</u>	<u>2,516,376</u>	<u>3,141,467</u>	<u>2,828,201</u>
(254,171)	(440,986)	(314,896)	(346,819)	(757,696)	(532,773)
278,743	337,127	339,549	396,660	462,793	436,908
(223,863)	(272,726)	(281,936)	(328,873)	(391,143)	(364,873)
274,721	433,514	313,771	387,051	626,205	926,780
173,062	169,230	229,168	219,238	324,030	-
(183,566)	(181,652)	(241,612)	(225,740)	(355,885)	(553,230)
-	6,439	8,356	8,757	5,381	9,092
10,546	16,912	15,870	9,004	(327)	34,166
-	-	-	-	-	-
-	-	-	-	-	-
<u>329,643</u>	<u>508,844</u>	<u>383,166</u>	<u>466,097</u>	<u>671,054</u>	<u>488,843</u>
<u>\$ 75,472</u>	<u>\$ 67,858</u>	<u>\$ 68,270</u>	<u>\$ 119,278</u>	<u>\$ (86,642)</u>	<u>\$ (43,930)</u>
13.5%	15.1%	14.9%	15.4%	23.0%	14.0%

**CITY OF HOUSTON, TEXAS**  
**TAX REVENUE BY SOURCE - GOVERNMENTAL FUNDS**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting)**  
**(amounts expressed in thousands)**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Franchise Tax</b>	<b>Industrial Assessments</b>	<b>Mixed Beverage Tax</b>	<b>Bingo Tax</b>	<b>Total Tax Collections</b>
2002	\$ 626,850	\$ 341,952	\$ 175,360	\$ 15,642	\$ 7,514	\$ 251	\$ 1,167,569
2003	\$ 639,888	\$ 322,538	\$ 160,673	\$ 15,014	\$ 7,572	\$ 246	\$ 1,145,931
2004	\$ 645,536	\$ 347,982	\$ 161,378	\$ 15,167	\$ 8,095	\$ 253	\$ 1,178,411
2005	\$ 664,831	\$ 370,583	\$ 162,263	\$ 14,635	\$ 8,343	\$ 270	\$ 1,220,925
2006	\$ 700,788	\$ 422,598	\$ 186,508	\$ 14,314	\$ 9,000	\$ 279	\$ 1,333,487
2007	\$ 738,578	\$ 461,417	\$ 189,551	\$ 15,823	\$ 9,713	\$ 279	\$ 1,415,361
2008	\$ 829,837	\$ 495,173	\$ 190,518	\$ 17,787	\$ 10,479	\$ 256	\$ 1,544,050
2009	\$ 890,308	\$ 507,103	\$ 190,800	\$ 19,133	\$ 10,587	\$ 226	\$ 1,618,157
2010	\$ 895,779	\$ 468,965	\$ 191,292	\$ 15,817	\$ 10,382	\$ 195	\$ 1,582,430

**CITY OF HOUSTON**  
**ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY**  
**Last Nine Fiscal Years**  
**(amounts expressed in thousands)**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Personal Property</b>	<b>Less: Tax Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
2002	\$ 53,776,892	\$ 43,574,102	\$ 7,089,516	\$ 2,816,865	\$ 11,767,963	\$ 95,489,412	6.5500
2003	\$ 58,211,949	\$ 43,815,475	\$ 7,640,012	\$ 2,886,083	\$ 13,248,143	\$ 99,305,376	6.5500
2004	\$ 63,305,495	\$ 43,964,367	\$ 7,987,666	\$ 2,527,261	\$ 14,627,189	\$ 103,157,600	6.5500
2005	\$ 67,298,102	\$ 44,051,724	\$ 7,923,377	\$ 2,532,851	\$ 15,924,828	\$ 105,881,226	6.5000
2006	\$ 71,997,166	\$ 60,214,783	\$ 8,149,890	\$ 2,023,823	\$ 31,298,860	\$ 111,086,802	6.4750
2007	\$ 76,997,953	\$ 65,711,310	\$ 9,198,065	\$ 2,568,995	\$ 33,880,872	\$ 120,595,451	6.4500
2008	\$ 84,322,788	\$ 75,245,892	\$ 11,740,472	\$ 2,515,631	\$ 38,060,662	\$ 135,764,121	6.4375
2009	\$ 90,065,098	\$ 88,374,034	\$ 12,148,055	\$ 2,380,333	\$ 44,198,187	\$ 148,769,333	6.3875
2010	\$ 91,451,713	\$ 89,110,300	\$ 12,911,034	\$ 2,344,315	\$ 46,805,799	\$ 149,011,563	6.3875

The tax rates are based on a 100% assessment ratio. Tax rates are stated per \$1,000 assessed value.

**CITY OF HOUSTON, TEXAS**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**Last Ten Fiscal Years**  
**(unaudited)**

<b>Purpose</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>City</b>					
City of Houston <sup>(A)</sup>	6.3875	6.3875	6.4380	6.4500	6.4750
<b>County</b>					
Fort Bend County	5.0660	4.9976	5.1674	5.1674	5.1674
Harris County <sup>(B)</sup>	4.2156	3.8923	3.9239	4.3480	4.3308
Montgomery County	4.8380	4.8380	4.8880	4.9130	4.9630
<b>School District</b>					
Aldine I.S.D.	14.3054	12.9200	12.7700	16.0400	17.0900
Alief I.S.D.	13.4000	13.4000	15.9000	15.9000	17.2000
Clear Creek I.S.D.	13.6000	13.6000	13.2000	16.3000	16.3000
Conroe I.S.D.	12.8500	12.7000	12.4000	15.9000	17.6000
Crosby I.S.D.	14.4000	13.4000	10.4000	18.0800	18.7000
Cypress-Fairbanks I.S.D.	14.1000	13.5000	13.2400	16.5400	18.0000
Deer Park I.S.D.	13.6670	13.3670	13.1765	16.6230	18.0550
Fort Bend I. S. D.	12.7000	12.7000	12.5000	15.4000	17.0750
Galena Park I.S.D.	14.7840	14.5590	14.3090	14.3090	18.1500
Goose Creek I.S.D.	12.8213	12.8213	13.0196	15.9562	17.2750
Houston I.S.D.	15.9900	15.9900	15.9900	15.9900	15.9900
Huffman I.S.D.	14.7000	14.7000	13.8000	16.0000	17.5500
Humble I.S.D.	15.2000	15.2000	13.1000	16.4000	17.7000
Katy I.S.D.	15.2660	15.2660	15.2700	18.1500	20.0000
Klein I.S.D.	13.6000	13.1000	12.6000	15.8000	17.0000
New Caney I.S.D.	14.4000	14.4000	14.4000	14.1500	17.9000
North Forest I.S.D.	13.5000	13.1434	12.3670	17.1250	17.1250
Pasadena I.S.D.	13.5000	13.5000	13.5000	16.9000	17.7500
Sheldon I.S.D.	14.3000	14.3000	14.3000	16.3400	17.5000
Spring I.S.D.	14.6000	14.6000	14.4000	17.1000	17.1000
Spring Branch I.S.D.	13.9450	13.8250	12.8500	16.3150	18.1000
<b>Municipal Utility District</b>					
Harris County MUD # 355	2.9500	3.0000	3.1000	3.7000	3.8000
Harris County MUD # 359	2.9500	2.8500	2.7000	3.0000	3.2500
Harris County MUD # 366	2.5000	2.5000	3.2000	3.5000	4.4000
Harris County MUD # 390	7.0000	7.0000	7.0000	7.0000	7.0000
Northwood MUD. #1	12.5000	12.5000	12.5000	12.5000	12.5000
<b>Other Jurisdictions</b>					
Clear Lake City Water Authority	2.8000	2.8000	2.8000	2.9000	2.9000
Fort Bend Parkway Road	0.5443	0.5443	0.4153	0.4153	0.4153
Harris County Dept. of Education	0.0605	0.0584	0.0585	0.0629	0.0629
Houston Community College System	0.1438	0.1493	0.1493	0.8133	0.8133
Lee College District	2.2130	2.0588	2.0677	2.0228	2.0677
Lone Star College System 1.	1.1010	1.1010	1.1440	1.1670	1.2070
Port of Houston	0.1636	0.1773	0.1437	0.1302	0.1474
San Jacinto Jr. College	1.7080	1.6341	1.4536	1.4536	1.3913

1. Formerly N. Harris Montgomery Community College

(A) The tax rates are based on a 100% assessment ratio. Tax rates are stated per \$1,000 assessed value.

(B) Harris County includes the Harris County Flood Control District and the Harris County Toll Road.

<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
6.5000	6.5500	6.5500	6.5500	6.5500
5.2374	5.2374	5.3874	5.6410	6.0410
7.6340	5.5060	6.5970	6.6920	6.4173
4.9630	4.7100	4.7100	4.7100	4.7470
16.8900	16.6800	16.1800	12.5000	15.1900
16.9000	16.7500	16.7500	16.7500	16.4000
17.4500	17.3000	17.4000	17.2500	17.0084
17.3250	17.3250	17.2250	2.0250	17.0250
18.8000	18.8450	16.7000	16.7000	16.8000
17.9000	17.9000	17.9000	17.0900	17.0900
18.0550	18.0710	18.0350	16.8980	16.9000
17.0750	No data	No data	No data	No data
17.9500	17.6500	17.6500	16.8352	16.8352
16.8371	1.8371	No data	No data	No data
15.9900	15.8000	15.8000	15.8000	15.1900
18.5000	16.7000	16.8000	16.8000	17.4000
17.4000	17.4000	17.4000	17.4000	16.8000
20.0000	19.7000	19.4000	19.2000	18.6750
17.0000	17.2000	17.2000	17.2000	16.7000
17.7000	17.7000	17.1000	16.5540	17.6960
17.4440	17.4440	17.4440	17.4440	17.4400
17.7500	17.7500	16.8750	16.6000	16.1000
17.4600	17.0300	16.3300	16.3300	14.5700
18.7000	17.6000	17.6000	17.0000	16.9000
18.1000	18.1000	18.1000	18.1000	17.9000
4.0000	3.4000	No data	No data	No data
3.7000	No data	No data	No data	No data
5.0000	5.0000	No data	No data	No data
7.0000	No data	No data	No data	No data
12.5000	12.5000	12.5000	12.5000	12.5000
2.9000	2.9000	3.1000	3.3000	3.3000
1.1448	1.1448	No data	No data	No data
0.0629	No data	No data	No data	No data
0.8133	0.8133	0.8133	No data	No data
2.0813	No data	No data	No data	No data
1.1450	1.1450	1.0550	1.1000	1.1000
0.1673	0.2000	0.1989	No data	No data
1.3913	1.3913	1.3071	1.3070	1.2600

**CITY OF HOUSTON, TEXAS  
PRINCIPAL PROPERTY TAXPAYERS  
June 30, 2010  
Current Year and Nine Years Ago  
(amounts expressed in thousands)  
(unaudited)**

Taxpayer	2010			2001		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Centerpoint Energy (Reliant H L & P)	\$ 1,415,048	1	0.95%	1,433,279	1	1.63%
Hines Interests Ltd. Partnership	1,071,150	2	0.72%	938,654	2	1.07%
Crescent Real Estate	604,373	3	0.41%	828,443	4	0.94%
Cullen Allen Holdings LP	510,186	4	0.34%			
Exxon Mobil Corp.	502,016	5	0.34%	444,888	6	0.51%
Continental Airlines, Inc.	456,049	6	0.31%	645,866	5	0.74%
Chevron Chemical Company	448,327	7	0.30%			
Southwestern Bell	446,342	8	0.30%	986,532	3	1.13%
Houston Refining	435,099	9	0.29%			
Anheuser Busch Inc.	412,310	10	0.28%	410,641	7	0.47%
Trizechahn Allen Center LP				408,966	8	0.47%
Weingarten Realty				263,202	9	0.30%
Lyondell-Citgo Refining Co.				232,388	10	0.27%
Total	<u>\$ 6,300,900</u>		<u>4.24%</u>	<u>\$ 6,592,859</u>		<u>7.53%</u>

**CITY OF HOUSTON**  
**TAX SUPPORTED DEBT SERVICE FUNDS**  
(amounts expressed in thousands)  
(unaudited)

**Tax Bond Debt Service Fund for Fiscal Year 2011<sup>(a)</sup>**

	<b>Amount</b>
<b>Budgeted Resources</b>	<b>(in thousands)</b>
Beginning Fund Balance Estimate as of July 1, 2010	\$ 177,273
Interest Earnings on Debt Reserves and Bond Funds	2,824
Transfers in from:	
General Fund	224,545
Combined Utility System Operating Fund	22,403
Other sources	24,732
Third Party Reimbursements	30,000
<b>Total Budgeted Resources</b>	<b>\$ 481,777</b>
<b>Budgeted Expenditures</b>	
Debt Service Requirements	
Tax Bonds	\$ 303,273
Commercial Paper Paid from Third Party Reimbursements	30,000
Miscellaneous	-
<b>Total Budgeted Expenditures</b>	<b>333,273</b>
Budgeted Ending Fund Balance as of June 30, 2011	148,504
<b>Total Budgeted Expenditures and Reserves</b>	<b>\$ 481,777</b>

(a) This fund includes the debt service for the City's Tax Bonds, Pension Obligations, and Commercial Paper Notes.

**Tax Certificates Debt Service Fund for Fiscal Year 2011**

	<b>Amount</b>
<b>Budgeted Resources</b>	<b>(in thousands)</b>
Beginning Fund Balance Estimate as of July 1, 2010	\$ 4,053
Interest Earnings on Debt Reserves and Bond Funds	
Transfers from General Fund	8,000
Other Sources	
<b>Total Budgeted Resources</b>	<b>\$ 12,053</b>
<b>Budgeted Expenditures</b>	
Debt Service Requirements	\$ 6,649
<b>Total Budgeted Expenditures</b>	<b>6,649</b>
Budgeted Ending Fund Balance as of June 30, 2011	5,404
<b>Total Budgeted Expenditures and Reserves</b>	<b>\$ 12,053</b>

**CITY OF HOUSTON**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**Last Nine Fiscal Years**  
**(amounts expressed in thousands)**  
**(unaudited)**

Fiscal Year	Governmental Activities			Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita (a)
	General Obligation Bonds	Capital Leases	Other Borrowings	Combined Utility System Revenue Bonds	Houston Airport System Revenue Bonds	Convention & Entertainment Revenue Bonds	Long-Term Contracts			
2002	\$ 1,934,505	\$ -	\$ 15,260	\$ 3,812,173	\$ 1,479,475	\$ 637,221	\$ 259,599	\$ 8,138,233	19.72%	\$ 4,165
2003	\$ 2,025,330	\$ 53,372	\$ 25,810	\$ 4,108,847	\$ 2,167,722	\$ 665,846	\$ 261,791	\$ 9,308,718	22.56%	\$ 4,699
2004	\$ 2,071,560	\$ 52,344	\$ 24,865	\$ 4,038,164	\$ 2,170,394	\$ 666,679	\$ 243,877	\$ 9,267,883	21.79%	\$ 4,612
2005	\$ 2,415,988	\$ 51,253	\$ 23,395	\$ 4,451,525	\$ 2,279,443	\$ 671,094	\$ 266,799	\$ 10,159,497	23.22%	\$ 5,038
2006	\$ 2,694,363	\$ -	\$ 21,880	\$ 4,695,148	\$ 2,260,462	\$ 665,402	\$ 248,368	\$ 10,585,623	22.14%	\$ 5,099
2007	\$ 2,851,948	\$ -	\$ 20,200	\$ 5,022,310	\$ 2,266,018	\$ 672,091	\$ 231,710	\$ 11,064,277	Not Available	\$ 5,159
2008	\$ 3,057,921	\$ -	\$ 15,060	\$ 5,227,465	\$ 2,263,676	\$ 671,848	\$ 211,016	\$ 11,446,986	Not Available	\$ 5,338
2009	\$ 3,179,667	\$ -	\$ 13,315	\$ 5,545,291	\$ 2,193,246	\$ 663,154	\$ 221,260	\$ 11,815,933	Not Available	\$ 5,270
2010	\$ 3,395,560	\$ -	\$ 10,010	\$ 5,715,279	\$ 2,506,253	\$ 652,052	\$ 178,844	\$ 12,457,998	Not Available	\$ 5,556

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(a) See the Schedule of Demographic and Economic Statistics on page 221 for personal income and population data.



**CITY OF HOUSTON, TEXAS**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**Last Nine Fiscal Years**  
(amounts expressed in thousands, except per capita amount)  
(unaudited)

<b>Fiscal Year</b>	<b>General Obligation</b>	<b>Less: Amounts Available in Debt</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value (1) of</b>	<b>Per</b>
	<b>Bonds</b>	<b>Service Fund</b>		<b>Property</b>	<b>Capita (2)</b>
2002	\$ 1,934,505	\$ 102,176	\$ 1,832,329	1.92%	\$ 938
2003	\$ 2,025,330	\$ 99,534	\$ 1,925,796	1.94%	\$ 972
2004	\$ 2,071,560	\$ 91,774	\$ 1,979,786	1.92%	\$ 985
2005	\$ 2,415,988	\$ 106,864	\$ 2,309,124	2.18%	\$ 1,145
2006	\$ 2,694,363	\$ 110,824	\$ 2,583,539	2.33%	\$ 1,244
2007	\$ 2,851,948	\$ 109,661	\$ 2,742,287	2.27%	\$ 1,279
2008	\$ 3,057,921	\$ 131,477	\$ 2,926,444	2.16%	\$ 1,325
2009	\$ 3,179,667	\$ 161,414	\$ 3,018,253	2.03%	\$ 1,346
2010	\$ 3,395,560	\$ 181,958	\$ 3,213,602	2.16%	\$ 1,433

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

1. See the schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 207 for property value data.
2. Population data can be found in the Schedule of Demographic and Economic Statistics on page 221.

**CITY OF HOUSTON, TEXAS**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2010**  
(amounts expressed in thousands)  
(unaudited)

	Net Direct Debt		% of Debt Applicable to Houston	City of Houston Share of Debt
	Amount	As of		
<b>City</b>				
City of Houston - direct	\$ 3,395,560	06/30/10	100.00%	\$ 3,395,560
<b>County</b>				
Fort Bend County	319,194	06/30/10	2.28%	7,278
Harris County (including Toll Road Bonds)	2,268,616	06/30/10	52.87%	1,199,417
Harris County Flood Control	487,010	06/30/10	52.87%	257,482
Montgomery County	284,767	06/30/10	1.14%	3,246
<b>School District</b>				
Aldine I.S.D.	318,921	06/30/10	48.54%	154,804
Alief I.S.D.	238,757	08/31/09	77.19%	184,297
Clear Creek I.S.D.	669,599	07/31/10	47.32%	316,854
Conroe I.S.D.	828,181	08/31/09	0.00%	-
Crosby I.S.D.	55,445	06/15/10	0.23%	128
Cypress-Fairbanks I.S.D.	1,744,349	06/30/10	11.25%	196,239
Deer Park I.S.D.	168,830	08/31/09	0.12%	202
Fort Bend I.S.D.	991,560	08/31/09	1.89%	18,740
Galena Park I.S.D.	238,631	06/30/10	13.49%	32,191
Goose Creek I.S.D.	326,186	06/30/10	0.00%	-
Houston I.S.D.	2,265,894	06/30/09	90.95%	2,060,831
Huffman I.S.D.	53,421	06/30/10	26.02%	13,900
Humble I.S.D.	623,468	09/30/09	43.25%	269,650
Katy I.S.D.	912,224	08/31/09	19.16%	174,782
Klein I.S.D.	263,653	06/30/10	1.26%	3,321
New Caney I.S.D.	204,423	08/31/09	18.28%	37,369
North Forest I.S.D.	63,462	06/30/10	93.89%	59,584
Pasadena I.S.D.	419,126	08/31/09	41.35%	173,308
Sheldon I.S.D.	121,026	06/30/10	0.44%	533
Spring I.S.D.	669,468	06/30/09	1.67%	11,180
Spring Branch I.S.D.	591,375	06/30/10	70.46%	416,683
<b>Municipal Utility District</b>				
Harris County MUD 355	10,308	06/30/10	99.08%	10,213
Harris County MUD 359	7,428	06/30/10	100.00%	7,428
Harris County MUD 366	1,046	06/30/10	89.27%	933
Harris County MUD 390	14,017	06/30/10	100.00%	14,017
Northwood Municipal Utility District #1	2,255	09/27/10	100.00%	2,255
<b>Other Jurisdictions</b>				
Clear Lake City Water Authority	53,338	06/30/10	68.69%	36,638
Fort Bend Parkway Road	-	06/30/10	12.57%	-
Harris County Dept. of Education	-	06/30/10	52.87%	-
Houston Community College System	246,425	08/31/10	90.86%	223,902
Lee College District	15,034	06/30/10	0.00%	-
Lone Star College System 1	522,405	06/30/10	11.64%	60,808
Port of Houston Authority	514,712	06/30/10	52.87%	272,128
San Jacinto Jr. College	247,296	07/31/10	15.44%	38,183
Total overlapping debt	16,761,850			6,258,524
Total direct and overlapping debt	<u>\$ 20,157,410</u>			<u>\$ 9,654,084</u>

Note: 1. Formerly N. Harris–Montgomery Community College District

The net direct debt amounts above, except for that which relates to the City of Houston, were provided by the individual government entities. The percentage of debt applicable to the City was provided by the Municipal Advisory Council of Texas. Net Direct Debt is equal to the outstanding principal amount less sinking fund balances

**City of Houston, Texas**  
**AD VALOREM TAX LEVIES AND COLLECTIONS**  
(amounts expressed in thousands)  
(unaudited)

Fiscal Year	Tax Rate <sup>(a)</sup>		Total	Net Current Year Tax Levy <sup>(b) (c)</sup> (in thousands)	Current Collections Prior to End of Fiscal Year <sup>(c) (d)</sup> (in thousands)	Prior Years' Delinquent Collections <sup>(d)</sup> (in thousands)	Total Collection <sup>(d)</sup> (in thousands)	%	Total Collections Percentage of Net Levy <sup>(c)</sup>
	General Purposes	Debt Service							
2006	0.46359	0.18391	0.64750	719,287	688,486	31,718	720,204	%	100.1
2007	0.45927	0.18573	0.64500	777,841	751,882	36,007	787,889		101.3
2008	0.46198	\$ 0.18178	0.64375	874,230	845,817	34,772	880,589		100.7
2009	0.45460	\$ 0.18415	0.63875	961,059	926,956	32,395	959,351		99.8
2010	0.45728	\$ 0.18147	0.63875	960,083	932,952	23,672	958,360		101.9
2011	0.46336	\$ 0.17539 (e)	0.63875 (d)	909,973 (e)	881,764 (e)	24,800 (e)	906,564 (e)		99.6

(a) The Texas Constitution limits the maximum ad valorem tax rate to \$2.50 per \$100 of assessed valuation for home-rule cities such as the City; however, for a discussion of the more restrictive City Charter Limitations, see "PROPERTY TAXES – City Charter Tax and Revenue Limitations."

(b) The figures represent net adjusted levies, including the late certification and correction rolls from the Appraisal District, through June 30 of each Fiscal Year, except for Fiscal Year 2011, which is as of August 20, 2010.

(c) Includes all ad valorem tax receipts received by the City, although such receipts include tax increment revenues ("Tax Increments") deposited into funds designated for various tax increment reinvestment zones (the "Zones"). Such revenues are separate funds maintained by Zones. By virtue of contracts among the City, the Zones and the local government corporations that manage the Zones, the Tax Increments each respective local government corporation and are available to fund authorized projects in the Zone and to be pledged to obligations issued by the local government corporation on behalf of the Zone. Bonds and other obligations issued by a local government corporation are not a debt of the City though the City is legally required to transfer the Tax Increments. In Fiscal Year 2010, the City transferred approximately \$64 million of Tax Increments into these funds as required by State law, of which approximately \$15 million will be transferred back to the City, by the end of the fiscal year, for affordable housing projects, an administrative fee and a fee for municipal service costs attributable to development in such Zones. Much of the Tax Increments transferred to the Zones are used to promote economic developments through the acquisition and construction of public improvements to spur development in certain areas of the City. Additionally, the Zones provide affordable housing and funds for certain City capital improvement projects. See "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS – In-City Districts."

(d) The City adopted a tax rate of \$0.63875 (per \$100 assessed valuation) for Tax Year 2010 (Fiscal Year 2011). See "– Constitutional and Statutory Tax Rate Limitations." The City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's outstanding bond indebtedness, with the remaining revenues to be apportioned among the City's respective departments. See "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES – Budgeting Procedures."

(e) Pursuant to Ordinance 2008-796 the City created the Drainage Supplemental Debt Service Fund to receive annually from ad valorem taxes a certain sum to support drainage capital improvement projects. Beginning in Fiscal Year 2009, and in Fiscal Year 2010, that amount was equal to \$0.0030 and \$0.0035 per \$100 ad valorem tax valuation, respectively. In Fiscal Year 2011 that amount is projected to equal \$0.0040 per \$100 ad valorem tax valuation or approximately \$5,331,000. See "PROPERTY TAXES – City Charter Tax and Revenue Limitations – Proposition 1 (2004)."

**City of Houston, Texas**  
**AD VALOREM TAX OBLIGATION PERCENTAGES**  
(amounts expressed in thousands)  
(unaudited)

<u>Tax Year</u>	<u>Fiscal Year</u>	<u>Tax-Supported Debt at December 31 (in thousands)(f)</u>	<u>Tax Roll<sup>(a)</sup> (in thousands)</u>	<u>Tax-Supported Debt as a Percentage of Tax Roll<sup>(g)</sup></u>	<u>Tax-Supported Per Capita Debt<sup>(b)</sup></u>	<u>Debt Service Requirement Payable from Taxes<sup>(c)(d)</sup> (in thousands)</u>	<u>Tax Levy for Debt Service (in thousands)<sup>(e)</sup></u>
2001	2002	1,934,789	95,463,127	2.03%	\$ 981	\$ 205,352	\$ 169,000
2002	2003	2,025,330	99,305,376	2.04%	1,022	219,673	178,000
2003	2004	2,073,359	103,157,602	2.01%	1,020	219,788	165,000
2004	2005	2,432,724	105,881,225	2.30%	1,181	233,354	188,000
2005	2006	2,644,366	111,225,839	2.38%	1,274	248,105	195,000
2006	2007	2,833,037	120,595,451	2.35%	1,306	262,523	209,000
2007	2008	3,016,248	135,764,121	2.22%	1,365	279,277	229,600
2008	2009	3,174,023	149,627,515	2.12%	1,418	254,513	251,700
2009	2010	3,324,065	150,270,904	2.12%	1,472	308,113	254,600
2010	2011	3,400,425 <sup>(g)</sup>	142,461,517	2.39%	1,506	327,376	233,502

- (a) With the exception of Tax Year 2010, the tax roll represents the total appraised value of property, after subtracting all exemptions, and reflects all adjustments made by the Appraisal Districts as of June 30 of each Fiscal Year. The Tax Year 2010 amount represents the Appraisal Districts' preliminary certified taxable valuations based on tax rolls available as of August 20, 2010, and have been adjusted to reflect the Appraisal Districts' estimated hearing loss of \$1,738,457,160. As of August 20, 2010, the total assessed value for Tax Year 2010 (including exempt property values) was approximately \$190.22 billion, which is the appraised value used to determine the statutory limitation of approximately \$19.0 billion relating to total bond indebtedness.
- (b) Per capita figures are based on population estimates according to the U.S. Census Bureau. See "APPENDIX B – Economic and Demographic Characteristics" for additional population information and other economic and demographic information. Tax Year 2010 is calculated using 2009 population estimates.
- (c) These amounts have not been reduced by the combined ending fund balances in the General Debt Service Fund, which were as follows for the Fiscal Years \$161,414,000, and Fiscal Year 2010 (projected) - \$152,500,000. \$161,414,000, and Fiscal Year 2010 (projected) - \$152,500,000. indicated: Fiscal Year 2006 - \$110,824,000, Fiscal Year 2007 - \$107,014,000, Fiscal Year 2008 - \$131,477,000, Fiscal Year 2009 - \$161,414,000, and Fiscal Year 2010 (projected) - \$152,500,000.
- (d) These amounts include principal and interest payments for Tax Obligations, except it only includes interest for Commercial Paper Notes at an assumed rate appropriate for each Fiscal Year.
- (e) Sources of funds for the general obligation debt service requirement include the tax levy and transfers from Enterprise and Special Revenue Funds.
- (f) Information as reported in the City's Monthly Operations and Financial Report dated as of December 31 of each Fiscal Year.
- (g) As of August 31, 2010.

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS  
COMPUTATION OF LEGAL DEBT MARGIN  
Last Ten Fiscal Years  
(amounts expressed in thousands)  
(unaudited)**

**LEGAL DEBT MARGIN CALCULATION AT JUNE 30, 2010**

Assessed Value (1)	\$ 195,817,362
Debt Limit (10% of assessed value)	19,581,736
Debt applicable to limit:	
Public Improvement Bonds	2,319,930
Pension Obligations	540,578
Commercial Paper - General Obligation	360,500
Tax and Revenue Certificates of Obligation	<u>79,870</u>
Total net debt applicable to limit	<u>3,300,878</u>
Legal debt margin	<u><u>\$ 16,280,858</u></u>

**HISTORICAL LEGAL DEBT LIMITATION**

	<b>2001</b>	<b>2002</b>
<b>Legal debt limitation, 10% of assessed value(2)</b>	\$ 9,814,263	\$ 10,725,911
Total net debt applicable to margin	<u>1,776,441</u>	<u>1,816,681</u>
Legal debt margin	<u><u>\$ 8,037,822</u></u>	<u><u>\$ 8,909,230</u></u>
Total net debt applicable to the limit as a percentage of debt limit	18%	17%

(1) Assessed Value for the 2009 tax year (fiscal year 2010) is based on the appraised value of property prior to any deductions for exemptions. The Assessed Value is derived from the certified valuations provided by the Harris County Appraisal District as of August 20, 2010.

(2) See Vernon's Annotated Civil Statutes, Article 835p, Section 1 and 2.

<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
\$ 11,255,352	\$ 11,778,479	\$ 12,180,606	\$ 14,238,567	\$ 15,447,632	\$ 17,382,478	\$ 19,296,752	\$ 19,581,736
<u>1,925,796</u>	<u>1,939,765</u>	<u>2,462,578</u>	<u>2,732,439</u>	<u>2,877,360</u>	<u>3,078,103</u>	<u>3,109,000</u>	<u>3,300,878</u>
<u>\$ 9,329,556</u>	<u>\$ 9,838,714</u>	<u>\$ 9,718,028</u>	<u>\$ 11,506,128</u>	<u>\$ 12,570,272</u>	<u>\$ 14,304,375</u>	<u>\$ 16,187,752</u>	<u>\$ 16,280,858</u>
17%	16%	20%	19%	19%	18%	16%	17%

**CITY OF HOUSTON, TEXAS**  
**PLEDGED - REVENUE COVERAGE**  
**Last Ten Fiscal Years**  
(amounts expressed in thousands)  
(unaudited)

**Airport System Bonds <sup>(1)</sup>**

Fiscal Year	Operating & Non-Operating Revenues <sup>(2)</sup>	Less: Operating Expenses	Net Pledged Revenue	Debt Service		Less Grants Available for Debt Service	Coverage
				Principal	Interest <sup>(3)</sup>		
2001	\$ 235,250	\$ 122,594	\$ 112,656	\$ 19,460	\$ 30,567	\$ 2,798	2.39
2002	244,791	142,950	101,841	4,380	47,231	37,153	7.04
2003	251,921	154,541	97,380	17,985	46,003	30,282	2.89
2004	278,933	161,645	117,288	18,865	56,932	32,823	2.73
2005	368,315	191,093	177,222	28,182	84,066	25,506	2.04
2006	411,545	205,565	205,980	31,737	108,776	46,621	2.19
2007	443,468	217,720	225,748	33,377	111,118	20,679	1.82
2008	477,422	221,309	256,113	45,996	111,623	28,022	1.98
2009	410,944	233,158	177,786	49,692	101,049	51,739	1.80
2010	425,397	245,147	180,250	51,832	94,728	56,058	1.99

1. Including Sr. Lien Commercial Paper, Subordinate Lien Bonds, and Inferior Lien Obligations.
2. Income and revenues derived from the operation of the Airport System with limited exclusions.
3. Debt service is net of amounts paid by grant funds and capitalized interest.

**Combined Utility System Bonds <sup>(4)</sup>**

Fiscal Year	Operating & Non-Operating Revenues <sup>(5)</sup>	Less: Total Expenses	Net Pledged Revenue	Debt Service		Coverage
				Principal	Interest	
2001	\$ 608,397	\$ 283,515	\$ 324,882	\$ 60,191	\$ 167,811	1.42
2002	590,589	278,174	312,415	56,936	162,446	1.42
2003	569,902	281,160	288,742	55,370	173,363	1.26
2004	624,297	304,882	319,415	54,528	169,364	1.43
2005	668,391	309,343	359,048	14,031	175,789	1.89
2006	721,243	349,135	372,108	31,570	196,461	1.63
2007	701,813	357,403	344,410	26,618	232,048	1.33
2008	722,918	378,919	343,999	27,088	248,900	1.25
2009	867,329	379,458	487,871	37,683	258,129	1.65
2010	814,979	371,913	443,066	68,187	281,468	1.27

4. Including Water and Sewer System Bonds, Combined Utility System Bonds, and Commercial Paper.
5. Income and revenues derived from the operation of the Combined Utility System with limited exclusions.

**Convention and Entertainment Center Bonds <sup>(6)</sup>**

Fiscal Year	Pledged Hotel Occupancy Tax & Other Revenue <sup>(7)</sup>	Debt Service		Coverage
		Principal	Interest	
2001	\$ 44,658	\$ 4,880	\$ 14,611	2.29
2002	41,162	-	24,151	1.70
2003	43,155	5,955	19,517	1.69
2004	46,398	6,265	20,833	1.71
2005	43,050	6,590	22,715	1.47
2006	56,654	13,680	23,094	1.54
2007	60,726	14,775	24,004	1.57
2008	67,109	17,540	23,926	1.62
2009	63,013	18,620	19,451	1.66
2010	56,913	21,230	15,747	1.54

6. Including Revenue Bonds and Commercial Paper.
7. Includes 5.65/7 of collected hotel occupancy tax, certain parking revenues, and certain tax rebates.



**CITY OF HOUSTON, TEXAS**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**Last Nine Fiscal Years**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Population</b>	<b>(1)</b>	<b>Personal Income (amount in thousands)</b>	<b>(2)</b>	<b>Per Capita Personal Income</b>	<b>(2)</b>	<b>Median Age</b>	<b>(2)</b>	<b>Education Level in Years of Formal Schooling</b>	<b>(2)</b>	<b>School Enrollment</b>	<b>(2)</b>	<b>Average Unemployment Rate (percentage)</b>	
2002	1,979,052		\$ 42,264,007		\$ 21,566		30.7		12.7		423,103		4.7	(3)
2003	2,002,144		\$ 41,269,994		\$ 21,290		31.5		12.8		404,349		6.0	(3)
2004	2,009,669		\$ 42,537,706		\$ 21,854		31.4		12.8		410,566		6.9	(3)
2005	2,016,582		\$ 43,748,970		\$ 22,534		31.9		12.7		392,846		6.3	(3)
2006	2,076,189		\$ 47,805,874		\$ 23,041		32.3		12.6		409,937		5.5	(4)
2007	2,144,491		\$ 49,960,993		\$ 25,719		32.2		12.8		425,015		4.6	(4)
2008	2,208,180		Not available		Not available		32.8		Not available		811,154	(5)	4.2	(2)
2009	2,242,193		Not available		\$ 26,836		32.9		13.2		520,118	(6)	5.9	(2)
2010	2,257,926	(2)	Not available		\$ 26,158		32.8		12.4		525,506	(6)	7.0	(2)

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal year 2002 is as of July 1, 2001.)

(2) Source: American Community Survey, U. S. Census Bureau. (Fiscal year 2002 data is for calendar year 2001.)

(3) Source: University of Houston, Center for Public Policy. (Data for fiscal year 2002 is calendar year 2001.)

(4) Source: Texas Workforce Commission

(5) School enrollment for the City of Houston is not available. The number for fiscal year 2008 reflects the Houston metropolitan area.

(6) School enrollment includes nursery school through graduate school.

**CITY OF HOUSTON, TEXAS  
PRINCIPAL EMPLOYERS  
June 30, 2010  
Current Year and Eight Years Ago  
(unaudited)**

Employer	2010			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Memorial Hermann Healthcare System	19,500	1	1.95%	14,000	2	1.49%
Continental Airlines, Inc.	16,000	2	1.60%	16,000	1	1.71%
ExxonMobil	13,000	3	1.30%			
Shell Oil Company	13,000	4	1.30%	10,733	7	1.15%
United Space Alliance	10,185	5	1.02%			
National Oilwell Varco	10,000	6	1.00%			
The Methodist Hospital System	9,991	7	1.00%	10,000	8	1.07%
Baylor College of Medicine	9,232	8	0.92%	9,000	10	0.96%
HP	9,000	9	0.90%			
St. Luke's Episcopal Health System	9,000	10	0.90%			
Kroger Company				13,000	3	1.39%
ARAMARK Corp.				13,000	4	1.39%
Halliburton				12,000	5	1.28%
Compaq Computer Corporation				11,000	6	1.17%
Reliant Energy				9,500	9	1.01%
Total :	<u>118,908</u>		<u>11.89%</u>	<u>118,233</u>		<u>12.62%</u>

Employers excludes school districts, city, county, state and federal government.

Source: Greater Houston Partnership

Total Houston Residents employed regardless of where they work.

Source: Bureau of Labor Statistics, LAUS 2010 (annual average) 998,885

Source: U. S. Census Bureau, American Community Survey 2002 937,053

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS  
EMPLOYMENT STATISTICS  
June 30, 2010  
(unaudited)**

**Employment**

The following table indicates the Houston PMSA estimated annual average labor force for the years 2000 through 2009 according to the Texas Employment Commission:

**Houston PMSA Labor Force Estimates  
(Employees in thousands)**

	<u>2000</u>	<u>2001</u>
Civilian Labor Force <sup>(A)</sup>	2,387	2,436
Employed	2,284	2,322
Unemployed	103	114
Percent unemployed	4.32%	4.68%
Nonfarm Payroll Employment <sup>(B)</sup>	2,255	2,294
Manufacturing	232	234
Mining	62	65
Contract construction	172	179
Transp/Trade/Pub Utils/Communications <sup>(C)</sup>	679	684
Finance/Insurance/Real Estate	86	86
Services & Miscellaneous	870	892
Government	309	314

(A) Includes resident wage and salary workers, self-employed, unpaid family workers and domestics in private households, agricultural workers, and workers involved in labor-management disputes.

(B) Includes the non-agricultural wage and salary jobs estimated to exist in Houston PMSA without reference to place of residence of workers.

(C) Trade has been included with Transportation, Public Utilities and Communication.

<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
2,520	2,558	2,577	2,614	2,674	2,723	2,781	2,873
2,368	2,385	2,417	2,468	2,540	2,606	2,647	2,638
152	173	160	146	134	117	134	235
6.03%	6.76%	6.21%	5.59%	5.01%	4.30%	4.82%	8.18%
2,289	2,274	2,290	2,349	2,446	2,545	2,603	2,530
222	210	208	212	223	233	241	218
63	65	68	71	78	84	90	88
181	174	165	169	182	197	205	172
664	642	640	653	673	699	715	564
86	87	89	91	91	92	91	138
897	901	923	962	1,014	1,063	1,087	973
327	333	335	339	345	352	361	377

**CITY OF HOUSTON, TEXAS**  
**Last Nine Years**  
**CITY OF HOUSTON EMPLOYMENT INFORMATION**  
**(unaudited)**

**Full-time Equivalent Employees as of June 30**

<b>Fund/Department</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
						<b>Restated</b>	<b>Restated</b>		
<b>GENERAL FUND</b>									
<b>Public Safety</b>									
Fire/Civilian	318.4	344.8	316.2	320.3	288.7	287.0	270.2	270.5	247.9
Fire/Classified	3,729.7	3,717.0	3,647.7	3,716.0	4,123.5	4,070.3	3,997.5	4,058.3	4,131.7
Fire/Cadets	162.5	268.2	392.8	181.5	38.5	103.0	113.5	95.7	53.0
Municipal Courts - Administration	388.5	380.1	354.7	347.1	343.7	290.9	262.2	284.8	269.8
Municipal Courts - Justice	45.2	46.8	45.3	41.6	45.3	47.6	49.4	50.6	50.9
Police/Civilian	1,780.3	1,509.9	1,425.5	1,115.6	1,173.1	1,237.8	1,289.5	1,572.3	1,528.4
Police/Classified	5,588.0	5,432.5	5,362.3	5,118.3	5,125.3	5,287.3	5,382.7	5,703.2	5,629.9
Police/Cadets	87.3	74.0	36.2	26.7	81.8	130.9	176.8	221.6	135.0
<b>Total Public Safety</b>	<b>12,099.9</b>	<b>11,773.3</b>	<b>11,580.7</b>	<b>10,867.1</b>	<b>11,219.9</b>	<b>11,454.8</b>	<b>11,541.8</b>	<b>12,257.0</b>	<b>12,046.6</b>
<b>Development &amp; Maintenance Services</b>									
General Services	313.1	311.7	289.4	181.2	211.3	228.2	237.8	242.1	233.2
Planning & Development	233.7	217.6	105.0	104.3	99.6	96.6	97.1	105.1	107.0
Public Works & Engineering	1,032.6	860.4	567.5	841.3	539.9	548.4	556.7	568.3	529.0
Solid Waste Management	617.1	581.2	545.9	576.9	576.4	546.6	655.0	667.2	633.5
<b>Total Development &amp; Maintenance</b>	<b>2,196.5</b>	<b>1,970.9</b>	<b>1,507.8</b>	<b>1,703.7</b>	<b>1,427.2</b>	<b>1,419.8</b>	<b>1,546.6</b>	<b>1,582.7</b>	<b>1,502.7</b>
<b>Human &amp; Cultural Services</b>									
Convention & Entertainment Facilities	-	-	-	-	63.0	54.8	0.4	3.5	-
Health & Human Services	898.0	834.7	776.6	767.1	797.9	725.8	684.5	741.3	667.3
Housing & Community Development	-	-	-	-	-	-	1.3	2.3	2.5
Library	604.8	520.3	531.2	443.0	473.1	484.5	497.3	530.5	517.4
Parks & Recreation	1,094.8	993.0	768.2	741.0	772.8	814.1	815.8	869.4	838.8
<b>Total Human &amp; Cultural Services</b>	<b>2,597.6</b>	<b>2,348.0</b>	<b>2,076.0</b>	<b>1,951.1</b>	<b>2,106.8</b>	<b>2,079.2</b>	<b>1,999.3</b>	<b>2,147.0</b>	<b>2,026.0</b>
<b>Administrative Services</b>									
Administration & Regulatory Affairs	-	-	-	-	-	-	264.1	292.0	375.9
City Secretary	15.8	13.7	13.8	12.1	12.1	11.6	11.1	11.5	11.4
Controller's Office	84.3	80.0	76.3	74.9	70.7	73.7	74.7	76.3	76.8
Council Office	78.9	74.0	68.2	61.5	71.3	68.1	71.4	73.3	72.4
Finance & Administration	332.6	320.6	304.4	313.5	303.8	310.0	-	-	-
Finance Department	-	-	-	-	-	-	54.9	68.9	76.9
Human Resources	52.9	45.9	43.0	38.6	38.2	37.9	39.1	39.3	41.8
Information Technology	133.7	130.6	147.4	143.5	127.2	129.0	140.3	154.9	169.6
Legal	163.6	158.7	153.4	146.4	144.0	152.8	158.7	168.1	161.0
Mayor's Affirmative Action	30.5	29.6	24.7	27.2	25.7	25.8	32.4	34.1	35.8
Mayor's Office	25.0	24.2	21.9	20.2	48.8	43.5	39.6	37.1	35.2
<b>Total Administrative Services</b>	<b>917.3</b>	<b>877.3</b>	<b>853.1</b>	<b>837.9</b>	<b>841.8</b>	<b>852.4</b>	<b>886.3</b>	<b>955.5</b>	<b>1,056.8</b>
<b>Total General Fund</b>	<b>17,811.3</b>	<b>16,969.5</b>	<b>16,017.6</b>	<b>15,359.8</b>	<b>15,595.7</b>	<b>15,806.2</b>	<b>15,974.0</b>	<b>16,942.2</b>	<b>16,632.1</b>
<b>ENTERPRISE FUNDS</b>									
Aviation	1,103.0	1,088.0	1,236.3	1,516.8	1,569.6	1,622.7	1,587.2	1,604.8	1,544.7
Convention & Entertainment Facilities	82.2	84.2	88.9	104.7	109.3	116.5	124.3	124.1	118.8
PW&E - Combined Utility System	2,246.6	2,283.9	2,102.6	2,220.3	2,158.6	2,243.8	2,288.9	2,350.7	2,338.0
GSD - Parking Management (formerly PW&E)	-	-	-	-	-	-	54.0	53.9	53.9
<b>Total Enterprise Funds</b>	<b>3,431.8</b>	<b>3,456.1</b>	<b>3,427.8</b>	<b>3,841.8</b>	<b>3,837.5</b>	<b>3,983.0</b>	<b>4,054.4</b>	<b>4,133.5</b>	<b>4,055.4</b>

**Full-time Equivalent Employees as of June 30**

<b>Fund/Department</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>SPECIAL REVENUE FUNDS</b>									
Administration & Regulatory Affairs	-	-	-	-	-	-	-	-	6.8
General Services	-	-	-	-	-	-	-	-	70.7
Cable Television	8.2	10.9	9.1	10.5	9.3	-	-	-	-
Health and Human Services	-	-	-	-	-	435.7	490.9	530.9	554.8
Housing and Community Development	-	-	-	-	-	126.5	136.9	140.1	148.2
Houston Emergency Center	72.0	183.8	190.4	219.3	239.6	248.0	264.6	275.6	256.8
Human Resources	-	-	-	-	-	-	-	-	79.1
Information Technology	-	-	-	-	-	-	-	-	15.6
Legal	-	-	-	-	-	-	-	-	41.9
Library	-	-	-	-	-	3.4	9.9	28.4	29.7
Parks Special Revenue	183.7	98.6	105.8	98.0	106.0	105.7	107.0	112.9	109.1
Planning	-	-	-	-	-	-	3.4	6.5	9.0
Police - Asset Forfeiture	61.0	63.7	20.0	15.9	21.3	-	-	-	-
Police - Auto Dealers/Civilian	6.1	6.1	6.8	8.2	6.3	73.7	113.8	88.6	-
Police - Auto Dealers/Classified	14.2	12.0	18.5	18.0	22.0	21.1	37.0	25.6	42.2
Police Special Services/Civilian	34.9	51.4	218.0	117.7	6.3	-	-	-	148.3
Police Special Services/Classified	-	-	1.0	-	40.8	-	-	-	-
PW&E - Building Inspection	270.6	262.8	389.5	308.5	380.0	1,313.8	1,362.2	1,373.6	1,347.1
PW&E - Sign Administration	30.8	31.5	26.9	27.5	31.6	-	-	-	-
PW&E - Stormwater Utility	299.7	406.0	393.5	403.5	413.6	-	-	-	-
PW&E - Houston TransStar	6.0	6.0	6.0	5.9	5.5	-	-	-	-
PW&E - TxDOT Signal Maintenance	6.8	6.8	7.0	0.5	-	-	-	-	-
Solid Waste Management	-	-	-	-	-	-	-	-	0.5
Mayor's Office	-	-	-	-	-	24.7	24.2	22.7	24.5
Municipal Courts Security Fund	-	-	-	19.4	21.5	22.8	24.4	28.7	28.8
Municipal Courts Technology Fee Fund	-	-	-	-	-	-	-	3.3	10.4
<b>Total Special Revenue Funds</b>	<b>994.0</b>	<b>1,139.6</b>	<b>1,392.5</b>	<b>1,252.9</b>	<b>1,303.8</b>	<b>2,375.4</b>	<b>2,574.3</b>	<b>2,636.9</b>	<b>2,923.5</b>
<b>Total General, Enterprise and Special Funds</b>	<b>22,237.1</b>	<b>21,565.2</b>	<b>20,837.9</b>	<b>20,454.5</b>	<b>20,737.0</b>	<b>22,164.6</b>	<b>22,602.7</b>	<b>23,712.6</b>	<b>23,611.0</b>
<b>INTERNAL SERVICE/REVOLVING FUND</b>									
Human Resources - Health Benefits	36.6	37.4	36.0	37.1	36.2	74.2	69.9	70.7	-
General Services - Central Svc Revolving	-	-	-	1.5	4.0	24.8	-	-	-
Human Resources - Central Svc Revolving	5.2	6.0	5.0	4.8	4.5	-	-	-	-
Admin. and Regulatory Affairs - Central Svc Revolving	12.1	13.5	6.0	5.5	5.9	6.0	-	-	-
Information Technology - Central Svc Revolving	-	-	2.0	1.6	2.0	-	3.3	2.9	-
Fire Reconstruction	18.0	20.2	13.3	-	-	-	-	-	-
General Services - In House Reconstruction	-	-	-	29.1	28.8	57.4	66.6	70.0	-
PW&E - Fleet Management	98.3	105.5	159.6	74.1	170.7	-	-	-	-
PW&E - CIP Salary Recovery	-	-	245.6	-	-	-	-	-	-
General Services - CIP Salary Recovery	-	-	-	-	19.6	-	-	-	-
Admin. and Regulatory Affairs - Property and Casualty	5.0	4.6	4.0	4.0	5.1	-	4.9	5.8	-
Legal - Property and Casualty	34.7	32.0	29.4	28.4	27.2	41.0	43.4	40.6	-
Human Resources - Workers Compensation	30.7	30.2	31.0	30.3	28.9	-	-	-	-
Legal - Workers Compensation	4.9	4.5	-	5.2	4.4	-	-	-	-
<b>Total Internal Service/Revolving Funds</b>	<b>245.5</b>	<b>253.9</b>	<b>531.9</b>	<b>221.6</b>	<b>337.3</b>	<b>203.4</b>	<b>188.1</b>	<b>190.0</b>	<b>-</b>
<b>Total Full-time Equivalent Employees</b>	<b>22,482.6</b>	<b>21,819.1</b>	<b>21,369.8</b>	<b>20,676.1</b>	<b>21,074.3</b>	<b>22,368.0</b>	<b>22,790.8</b>	<b>23,902.6</b>	<b>23,611.0</b>

General Services was Building Services.

Administration & Regulatory Affairs and the Finance Department were Finance and Administration.

**CITY OF HOUSTON, TEXAS**  
**OPERATING INDICATORS BY FUNCTION**  
**June 30, 2010**  
(unaudited)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Function</b>									
Police									
Physical arrests	105,623	112,975	110,573	103,917	100,795	121,834	110,058	132,121	141,525
Parking violations	303,159	265,880	253,038	241,324	203,591	255,690	210,607	217,795	208,970
Traffic violations filed	696,998	871,457	779,068	841,494	851,573	939,932	867,535	920,341	875,134
Fire									
Number of calls dispatched	256,257	255,648	261,903	267,171	284,231	278,713	281,574	281,103	270,312
Inspections	36,171	28,336	30,491	40,540	38,937	32,694	31,800	84,378 (1)	86,561
Highways and streets									
Streets resurfaced (miles)	545	426	435	374	334	325	307	235	195
Tons of asphalt for pothole repair and skin patches	Not Available	18,788	18,879	18,272	16,104	16,178	16,647	17,323	17,103
Parks and recreation									
Athletic field permits issued	1,920	1,587	1,854	1,850	1,995	2,073	2,494	2,331	2,490
Community center admissions	2,880,133	3,060,111	3,199,874	2,859,414	3,332,920	3,618,818	4,146,502	3,924,751	4,413,580
Sanitation									
Refuse collected (tons)	860,924	904,804	876,519	835,054	825,915	837,008	796,926	803,428	764,900
Recyclables collected (tons)	32,572	37,942	28,862	20,607	15,352	15,703	21,312	53,151 (2)	74,616
Water									
New connections	6,273	5,435	6,616	7,806	5,235	6,871	5,660	3,400	3,008
Water main breaks	5,362	3,148	3,269	3,381	4,939	5,623	2,797	9,822 (3)	12,556
Average daily pumpage (millions of gallons)	374.8	359.0	356.6	363.1	399.9	374.5	372.0	378.7	401.0
Wastewater									
Wastewater line repairs	3,590	3,635	3,348	2,577	2,413	2,315	2,160	2,059	2,267
Average daily sewage treatment (millions of gallons)	254.7	262.4	286.8	252.0	227.0	244.0	268.0	230.0	239.5

(1) The Fire Department now has a better system to record inspections. For example, a ten-building apartment complex is now counted as ten inspections, not one.

(2) The Solid Waste Department started the tree recycling program in January, which greatly increased the tons of recyclables collected.

(3) A dry year caused a higher than usual number of breaks.



**CITY OF HOUSTON, TEXAS**  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
**June 30, 2010**  
**(unaudited)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Function</b>									
Public safety									
Police									
Stations	14	14	14	14	15	15	17	17	17
Patrol units	Not Available	Not Available	Not Available	730	919	829	851	932 (1)	960
Fire									
Stations	86	87	88	88	90	90	91	91	92
Highways and streets									
Streets (lane miles)	15,645	15,645	15,645	15,645	15,645	15,645	15,645	15,763	15,763
Streetlights	170,300	171,800	173,500	175,000	176,000	172,300	173,000	173,520	174,008
Traffic signals	2,310	2,325	2,340	2,355	2,400	2,430	2,450	2,399 (2)	2,391
Parks and recreation									
Parks acreage	18,364	18,429	18,620	18,620	24,493	38,934	38,934	38,970	38,992
Parks	518	521	523	523	533	539	540	546	545
Swimming pools	43	43	43	43	40	58	62	62	61
Tennis Centers	3	3	3	3	3	3	3	3	3
Community centers	58	58	58	57	56	56	58	58	58
Sanitation									
Collection trucks	343	343	344	347	338	326	337	322	329
Water									
Water mains (miles)	Not Available	Not Available	Not Available	7,354	7,354	7,501	6,500	6,500	7,466
Fire hydrants	47,397	49,000	51,155	52,879	54,829	54,522	56,950	57,432	57,500
Maximum daily capacity (millions of gallons)	479.4	466.0	482.4	456.3	480.6	459.3	449.9	535.6	531.7
Sewer									
Sanitary sewers (miles)	Not Available	Not Available	Not Available	6,752	6,752	6,897	7,500	7,500	6,924
Storm sewers (miles)	3,300	3,300	3,300	3,300	3,420	3,487	3,513	3,513	3,618
Maximum daily treatment permitted (millions of gallons)	559.5	562.6	564.0	564.0	564.0	564.0	564.0	564.0	564.0

(1) The number of patrol units greatly increased due to Hurricane Ike.

(2) The number of traffic signals decreased because last year's number included assuming responsibility from TXDOT for additional signals. This did not happen.

**CITY OF HOUSTON, TEXAS**  
**June 30, 2010**  
**INCREASES/DECREASES TO NET ASSETS OF PENSION PLANS**  
**(amounts expressed in thousands)**  
**(unaudited)**

	<u>Police</u>	<u>Fire</u>	<u>Municipal</u>	<u>Total</u>
Additions (Deductions)	\$472.0	\$497.4	\$297.8	\$1,267.2
Deductions	<u>170.7</u>	<u>144.7</u>	<u>199.4</u>	<u>514.8</u>
Net Increase (Decrease)	<u>301.3</u>	<u>352.7</u>	<u>98.4</u>	<u>752.4</u>
City's Total Contribution	<u><u>\$73.2</u></u>	<u><u>\$74.2</u></u>	<u><u>\$82.1</u></u>	<u><u>\$229.5</u></u>

The City's funding policies provide for actuarially determined periodic contributions at rates such that overtime will remain level as a percentage of payroll. The contribution rate for normal cost is determined by using the entry age normal cost method. The pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 40 years from January 1, 1993.

**CITY OF HOUSTON, TEXAS**  
**PRINCIPAL AND INTEREST PAYABLE FROM AD VALOREM TAXES**  
**(EXCLUDING COMMERCIAL PAPER NOTES)**  
**(unaudited)**

The following schedule presents the City's debt service requirements for Fiscal Years 2010 through 2039 for the outstanding Tax Bonds, Pension Obligations, and Tax Certificates. Debt service on commercial paper notes is not reflected in the schedule below.

Fiscal Year Ending June 30	Tax Bonds	Pension Obligations	Tax Certificates	Total Debt Service
2010	244,961,752	35,416,883	10,123,518	290,502,153
2011	254,067,762	35,416,883	7,958,880	297,443,525
2012	240,691,474	35,416,883	9,518,870	285,627,227
2013	229,199,612	35,416,883	14,079,380	278,695,875
2014	228,496,618	41,761,883	5,348,085	275,606,586
2015	232,396,355	41,807,782	5,351,805	279,555,942
2016	229,329,274	41,855,691	5,351,985	276,536,950
2017	233,740,637	41,903,723	5,354,415	280,998,775
2018	229,468,687	41,959,990	5,353,565	276,782,242
2019	198,450,375	42,016,976	5,354,115	245,821,466
2020	207,861,550	42,082,481	5,355,495	255,299,526
2021	174,475,675	52,108,673	5,352,150	231,936,498
2022	162,352,563	52,136,552	5,353,750	219,842,865
2023	168,274,463	52,152,976	4,333,500	224,760,939
2024	111,483,713	52,178,542	4,333,750	167,996,005
2025	110,615,138	52,207,273	4,335,500	167,157,911
2026	72,327,238	52,238,195	4,338,250	128,903,683
2027	89,084,988	52,270,018	4,336,500	145,691,506
2028	87,427,288	52,296,136		139,723,424
2029	50,602,408	60,664,946		111,267,354
2030	12,982,845	60,711,046		73,693,891
2031	12,991,676	72,169,804		85,161,480
2032	15,447,770	72,208,028		87,655,798
2033	15,447,651	29,834,887		45,282,538
2034	12,728,482	5,625,280		18,353,762
2035	15,453,401	49,970,280		65,423,681
2036	12,593,320	38,598,102		51,191,422
2037	9,160,537	23,666,897		32,827,434
2038	5,559,890			5,559,890
2039	2,555,024			2,555,024
<b>Total</b>	<b>\$ 3,670,228,166</b>	<b>\$ 1,266,093,693</b>	<b>\$ 111,533,513</b>	<b>\$ 5,047,855,372</b>

**CITY OF HOUSTON, TEXAS**  
**June 30, 2010**  
**VOTER-AUTHORIZED OBLIGATIONS**  
**(Unaudited)**

The following schedule sets forth the categories of bond authorization approved by the voters in elections held in November of 2001 (the "2001 Election") and November of 2006 (the "2006 Election"), the amount of each such authorization approved by City Council for issuance as Commercial Paper Notes, the amount of commercial paper issued as of year-end, and the amount of commercial paper approved but unissued. The City has issued all bonds authorized at the election held in November of 1997.

**SCHEDULE 9: VOTER AUTHORIZED OBLIGATIONS**  
(in thousands)

**November 2001 Election**

<u>Purposes</u>	<u>Voter Authorized</u>	<u>Approved by City Council for Issuance as Commercial Paper Notes</u>	<u>Commercial Paper Issued</u> <sup>(a)</sup>	<u>Commercial Paper Notes Approved by City Council but Unissued</u>	<u>All Voter Authorized but Unissued</u>
Streets, Bridges, Traffic Control and Storm Sewers and Drainage	\$ 474,000	\$ 474,000	\$ 437,382	\$ 36,618	\$ 36,618
Parks and Recreation	80,000	80,000	80,000	0	0
Police and Fire Departments Permanent and General Improvements <sup>(b)</sup>	82,000	82,000	82,000	0	0
Public Libraries	80,000	80,000	79,178	822	822
Low Income Housing	40,000	40,000	40,000	0	0
	20,000	20,000	6,120	13,880	13,880
<b>Total</b>	<b>\$ 776,000</b>	<b>\$ 776,000</b>	<b>\$ 724,680</b>	<b>\$ 51,320</b>	<b>\$ 51,320</b>

**November 2006 Election**

<u>Purposes</u>	<u>Voter Authorized</u>	<u>Approved by City Council for Issuance as Commercial Paper Notes</u>	<u>Commercial Paper Issued</u> <sup>(a)</sup>	<u>Commercial Paper Notes Approved by City Council but Unissued</u>	<u>All Voter Authorized but Unissued</u>
Streets, Bridges, Traffic Control and Storm Sewers and Drainage	\$ 320,000	\$ 154,950	\$ 16,420	\$ 138,530	\$ 303,580
Parks and Recreation	55,000	28,100	12,250	15,850	42,750
Public Safety	135,000	70,450	25,005	45,445	109,995
Permanent and General Improvements <sup>(b)</sup>	60,000	55,000	18,500	36,500	41,500
Public Libraries	37,000	27,675	12,000	15,675	25,000
Low Income Housing	18,000	7,375	0	7,375	18,000
<b>Total</b>	<b>\$ 625,000</b>	<b>\$ 343,550</b>	<b>\$ 84,175</b>	<b>\$ 259,375</b>	<b>\$ 540,825</b>
<b>Combined Total (2001 and 2006 Elections)</b>	<b>\$ 1,401,000</b>	<b>\$ 1,119,550</b>	<b>\$ 808,855</b>	<b>\$ 310,695</b>	<b>\$ 592,145</b>

(a) As of

June 30, 2010

(b) Includes Public Health and Solid Waste Management.

**CITY OF HOUSTON, TEXAS**  
**June 30, 2010**  
**(unaudited)**

**SALES AND USE TAX AND FRANCHISE CHARGES AND FEES**

<u>Fiscal Year</u>	<u>Sales and Use Tax</u> (in thousands)	<u>Charges and Fees</u> (in thousands)
2006	\$ 422,598	\$ 186,508
2007	\$ 461,467	\$ 189,551
2008	\$ 495,173	\$ 190,193
2009	\$ 507,103	\$ 190,322
2010	\$ 468,965	\$ 190,868
2011 (budgeted)	\$ 473,754	\$ 188,736

**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES FUND REVENUES AND EXPENSES**  
**Last Ten Fiscal Years**  
**(amounts expressed in thousands)**  
**(unaudited)**

<b>Total Annual Revenues Last Ten Fiscal Years</b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>
<b>Operating Revenues</b>			
Fees charged to users, net	\$ 17,469	\$ 15,521	\$ 17,010
<b>Total Operating Revenues</b>	<u>17,469</u>	<u>15,521</u>	<u>17,010</u>
<b>Nonoperating Revenues</b>			
Interest	9,846	23,766	14,311
Hotel occupancy tax (including penalty & interest)	46,123	43,452	43,169
Other income	<u>181</u>	<u>-</u>	<u>713</u>
<b>Total Nonoperating Revenues</b>	<u>56,150</u>	<u>67,218</u>	<u>58,193</u>
<b>Total Revenues</b>	<u><u>\$ 73,619</u></u>	<u><u>\$ 82,739</u></u>	<u><u>\$ 75,203</u></u>
<b>Total Annual Expenses Last Ten Fiscal Years</b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>
<b>Operating Expenses</b>			
Maintenance and operating	\$ 20,331	\$ 21,721	\$ 24,830
Depreciation	<u>6,356</u>	<u>12,406</u>	<u>13,274</u>
<b>Total Operating Expenses</b>	<u>26,687</u>	<u>34,127</u>	<u>38,104</u>
<b>Nonoperating Expenses</b>			
Interest on long-term debt	12,655	28,410	19,347
Promotional contracts & other expenses	<u>20,698</u>	<u>24,193</u>	<u>19,305</u>
<b>Total Nonoperating Expenses</b>	<u>33,353</u>	<u>52,603</u>	<u>38,652</u>
<b>Total Expenses</b>	<u><u>\$ 60,040</u></u>	<u><u>\$ 86,730</u></u>	<u><u>\$ 76,756</u></u>

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 17,145	\$ 19,175	\$ 19,599	\$ 20,554	\$ 22,306	\$ 20,902	\$ 20,298
<u>17,145</u>	<u>19,175</u>	<u>19,599</u>	<u>20,554</u>	<u>22,306</u>	<u>20,902</u>	<u>20,298</u>
13,109	15,926	16,729	18,704	19,186	17,688	11,971
47,223	42,266	54,765	58,709	66,232	62,383	54,917
-	7,279	4,190	13,215	5,669	113,265	18,997
<u>60,332</u>	<u>65,471</u>	<u>75,684</u>	<u>90,628</u>	<u>91,087</u>	<u>193,336</u>	<u>85,885</u>
<u>\$ 77,477</u>	<u>\$ 84,646</u>	<u>\$ 95,283</u>	<u>\$ 111,182</u>	<u>\$ 113,393</u>	<u>\$ 214,238</u>	<u>\$ 106,183</u>

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 28,791	\$ 32,797	\$ 33,437	\$ 35,342	\$ 37,276	\$ 39,142	\$ 39,817
<u>14,077</u>	<u>10,372</u>	<u>10,984</u>	<u>11,925</u>	<u>12,084</u>	<u>14,888</u>	<u>14,958</u>
<u>42,868</u>	<u>43,169</u>	<u>44,421</u>	<u>47,267</u>	<u>49,360</u>	<u>54,030</u>	<u>54,775</u>
25,413	29,468	30,970	32,859	33,150	29,740	26,032
<u>23,307</u>	<u>61,694</u>	<u>23,880</u>	<u>21,119</u>	<u>28,659</u>	<u>30,840</u>	<u>32,988</u>
<u>48,720</u>	<u>91,162</u>	<u>54,850</u>	<u>53,978</u>	<u>61,809</u>	<u>60,580</u>	<u>59,020</u>
<u>\$ 91,588</u>	<u>\$ 134,331</u>	<u>\$ 99,271</u>	<u>\$ 101,245</u>	<u>\$ 111,169</u>	<u>\$ 114,610</u>	<u>\$ 113,795</u>

**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**  
**Last Ten Fiscal Years**  
**(unaudited)**

**HISTORICAL PLEDGED REVENUES**  
**(amounts expressed in thousands)**

<b>Fiscal Year</b>	<b>Pledged HOT (a)</b>	<b>% Change</b>	<b>Pledged Parking Revenues (b)</b>	<b>% Change</b>	<b>Tax Rebates</b>	<b>% Change</b>	<b>Total (c)</b>
2001	37,228	8.4%	7,202	3.9%	--	--	44,430
2002	35,072	-5.8%	5,634	-21.8%	--	--	40,706
2003	34,844	-0.7%	7,852	39.4%	--	--	42,696
2004	38,115	9.4%	7,125	-9.3%	1,857	--	47,097
2005	34,115	-10.5%	6,682	-6.2%	6,528	251.5%	47,325
2006	44,204	29.6%	6,734	0.8%	7,233	10.8%	58,171
2007	47,387	7.2%	6,810	1.1%	7,223	-0.1%	61,420
2008	53,459	12.8%	7,333	7.7%	8,951	23.9%	69,743
2009	49,694	-7.0%	6,727	-8.3%	8,913	-0.4%	65,334
2010	44,483	-10.5%	7,477	11.1%	7,844	-12.0%	59,804

- (a) The Pledged Hotel Occupancy Tax (HOT) revenues are revenues (including penalties, interest and delinquencies, if any) collected due to an occupancy tax of 5.65% applied to the cost of substantially all hotel room rentals in the City other than the Hilton Americas Hotel during the first ten years of its operation. The total HOT imposed by the City is 7%.
- (b) The City's pledge of parking revenues for debt service is subordinate to the City's pledge of the first \$1,200,000 of such gross revenues, charges and tolls to the payment of its annual obligation under the Music Hall Lease, unless such obligation is paid, defeased, matures or is otherwise restructured. These annual payments totaled \$1,000,000 for fiscal years 2001-2005, \$1,050,000 for fiscal year 2006, and \$1,100,000 for fiscal years 2007-2010.
- (c) The Tax Rebates consist of rebates of hotel occupancy taxes, sales taxes, and mixed beverage taxes derived from the Hilton Americas Hotel and parking garage during the first ten years of operation.
- (d) Amounts shown do not include investment earnings on pledged revenues, which are also pledged.

**Historical Tax Rebates**  
**(amounts expressed in thousands)**

<b>Fiscal Year</b>	<b>HOT Tax 15%</b>	<b>Sales Tax 8.25% (1)</b>	<b>Mixed Beverage Tax 3%</b>	<b>Total Tax Rebate</b>
2004	\$ 1,293	\$ 544	\$ 20	\$ 1,857
2005	4,579	1,807	142	6,528
2006	5,403	1,659	171	7,233
2007	5,351	1,769	103	7,223
2008	6,436	2,268	247	8,951
2009	6,225	2,471	217	8,913
2010	5,287	2,374	183	7,844

(1) Includes taxes on food, telephone and other sales.



**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**  
**Last Ten Fiscal Years**  
**(unaudited)**

**Schedule of Hotel Occupancy Tax and Occupancy Rates**

<b>Fiscal Year</b>	<b>Occupancy % Rate (1)</b>	<b>Average Daily Rate (1)</b>	<b>Tax % Rate</b>	<b>Gross Hotel Occupancy Tax Revenues (in thousands)</b>
2001	68.9%	90.50	7%	46,123
2002	63.2%	90.79	7%	43,452
2003	60.4%	85.89	7%	43,169
2004	61.9%	88.64	7%	47,223
2005	67.2%	79.14	7%	43,902
2006	66.2%	88.18	7%	56,735
2007	66.3%	95.77	7%	60,777
2008	67.7%	104.73	7%	68,413
2009	56.1%	95.65	7%	64,486
2010	54.6%	93.58	7%	56,753

(1) Source: Greater Houston Partnership.

**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**  
**For Fiscal Year 2010**  
**(unaudited)**

**Schedule of Hotel Occupancy Tax Collections**

<u>The Twelve Largest Taxpayers</u>	<u>Gross Hotel Occupancy Tax Collections</u>
Hilton Americas-Houston	\$ 2,535,826
Hyatt Regency Hotel	1,739,682
Four Seasons Hotel Houston Center	1,331,245
JW Marriott Galleria	1,245,535
Westin Galleria	1,095,547
Hilton Houston Post Oak	1,063,024
Houston Marriott Briarpark	1,011,852
Marriott Hotel	961,794
Hilton Houston Greenspoint	961,058
Houstonian Hotel	937,696
Hotel Zaza	883,662
Westin Oaks	<u>871,523</u>
Total	<u>\$ 14,638,444</u>

Top Ten Clients (Excluding Hotel Occupancy Tax Revenues)

Republic Parking Systems	\$ 9,834,792
Houston Convention Center Hotel Corporation	4,412,925
Aramark	1,527,671
Smart City	1,195,398
Houston Symphony Society	447,691
AVW	430,613
Lakewood Rental	346,352
Houston Grand Opera	341,144
Toyota Center	295,740
Miller Outdoor Theatre Advisory Board	<u>282,271</u>
Total	<u>\$ 19,114,597</u>

**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**  
**For Fiscal Year 2010**  
**(unaudited)**

**Parking Facilities Rates**

<b>Facility</b>	<b>City Employee Monthly Contract (1)</b>	<b>Other Monthly Contract (2)</b>	<b>Daily Transient (2)</b>	<b>Event Rate (2)</b>
Theater District Garage	\$81.00	\$145.00	\$3.00 per hour	7.00
		\$93.00 (3)	\$9.00 Maximum	
		\$120.00 (4)		
Reserved parking		\$225.00		
City Hall Annex Parking Garage	\$51.76	\$93.00	n/a	5.00
Lots C and H	\$44.33	\$48.00	n/a	3.00

(1) Does not include sales and use tax of 8.25%

(2) Includes sales and use tax of 8.25%

(3) Rates paid by Convention & Entertainment Facilities departmental contractors

(4) Bulk contract parking agreement

Source: City of Houston, Convention & Entertainment Facilities Department

**CITY OF HOUSTON, TEXAS**  
**CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**  
**Debt Service Schedule**  
**(unaudited)**

The following table sets forth the Debt Service Requirements on all Convention & Entertainment Revenue Bonds Outstanding as of June 30, 2010, assuming scheduled mandatory redemption of any term bonds and using rates in effect at year-end for auction rate securities and variable rate demand obligations. The amounts do not include the Convention and Entertainment Center's Commercial Paper Notes.

<b>Fiscal Year</b>	<b>Series 2001 A</b>	<b>Series 2001 B</b>	<b>Series 2001 C</b>	<b>Total Debt</b>
<b>Ending</b>	<b>Bonds</b>	<b>Bonds</b>	<b>Bonds <sup>(1)</sup></b>	<b>Service</b>
<b>June 30</b>	<b>Bonds</b>	<b>Bonds</b>	<b>Bonds <sup>(1)</sup></b>	<b>Service</b>
2011	13,727,994	22,556,050	1,605,464	37,889,508
2012	13,731,719	22,829,244	1,573,683	38,134,646
2013	13,737,953	24,382,988	1,572,276	39,693,217
2014	13,735,941	24,521,616	1,575,173	39,832,730
2015	13,738,425	24,440,238	1,575,173	39,753,836
2016	13,743,525	16,325,319	1,603,975	31,672,819
2017	8,756,572	22,986,963	1,572,359	33,315,894
2018	9,696,281	22,698,700	1,575,173	33,970,154
2019	4,548,731	21,654,794	7,820,829	34,024,354
2020	5,512,031	22,066,819	8,100,559	35,679,409
2021	6,561,881	21,094,119	8,327,284	35,983,284
2022		29,121,925	8,678,436	37,800,361
2023		29,261,563	8,971,718	38,233,281
2024		30,597,669	9,286,035	39,883,704
2025		30,932,488	9,596,600	40,529,088
2026		32,207,594	9,955,149	42,162,743
2027		32,889,456	10,356,628	43,246,084
2028		33,368,825	10,716,724	44,085,549
2029		34,620,331	11,091,896	45,712,227
2030		35,123,056	11,578,452	46,701,508
2031		36,179,756	12,008,004	48,187,760
2032		36,631,363	12,481,154	49,112,517
2033		36,734,713	13,000,510	49,735,223
2034		38,108,331	11,721,265	49,829,596
Total	<u>\$ 117,491,053</u>	<u>\$ 681,333,920</u>	<u>\$ 176,344,517</u>	<u>\$ 975,169,490</u>

(1) Assumes an interest rate of 1.053% for the Series 2001C-1 Auction Rate Certificates and the 2001 C-2 Auction Rate Certificates.

**CITY OF HOUSTON, TEXAS  
CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS**

(unaudited)

**Convention & Entertainment Budget for Fiscal Year 2011  
(amounts expressed in thousands)**

**Budgeted Resources**

**Operating Revenues**

Facility Rentals	\$ 6,224
Parking	9,696
Food and Beverage Concessions	3,117
Contract Cleaning	<u>300</u>
<b>Total Operating Revenues</b>	<u>19,337</u>

**Operating Expenses**

Personnel	10,389
Supplies	694
Services	<u>27,391</u>
<b>Total Operating Expenses</b>	<u>38,474</u>
<b>Operating Income (Loss)</b>	<u>(19,137)</u>

**Nonoperating Revenues (Expenses)**

Hotel Occupancy Tax	
Current	53,500
Delinquent	1,000
Advertising Services	(12,305)
Promotion Contracts	(10,326)
Contracts/Sponsorships	<u>(2,600)</u>
Net Hotel Occupancy Tax	<u>29,269</u>
Investment Income (Loss)	1,200
Capital Outlay	(185)
Non-Capital Outlay	(18)
Other Interest	(445)
Other	<u>5,612</u>
Total nonoperating Rev (Exp)	<u>35,433</u>
Income (Loss) Before Operating Transfers	<u>16,296</u>

**Transfers**

Transfers to Interest	5,352
Transfers to Principal	12,736
Interfund Transfers	3,985
Miller Outdoor Theater Transfer	(1,197)
Transfers to General Fund	557
Transfers from General Fund	<u>(100)</u>
Total Transfers	<u>21,333</u>

<b>Net Income (Loss) Operating Fund</b>	<u><u>\$ (5,037)</u></u>
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**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM FUND REVENUES AND EXPENSES**  
**Last Ten Fiscal Years**  
**(amounts expressed in thousands)**  
**(unaudited)**

<b>Total Annual Revenues Last Ten Fiscal Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Operating Revenues</b>					
Water sales	\$ 271,553	\$ 271,098	\$ 267,125	\$ 265,272	\$ 301,227
Waste water system user charges	268,492	265,091	264,159	257,225	288,459
Penalties	4,440	4,214	4,036	4,150	4,605
Other services and charges	2,807	2,993	3,997	4,561	4,583
<b>Total Operating Revenues</b>	<b>547,292</b>	<b>543,396</b>	<b>539,317</b>	<b>531,208</b>	<b>598,874</b>
<b>Nonoperating Revenues</b>					
Interest	56,914	33,703	24,043	6,889	12,972
Other income	22,511	32,368	26,894	26,179	24,707
<b>Total Nonoperating Revenues</b>	<b>79,425</b>	<b>66,071</b>	<b>50,937</b>	<b>33,068</b>	<b>37,679</b>
<b>Total Revenues</b>	<b>\$ 626,717</b>	<b>\$ 609,467</b>	<b>\$ 590,254</b>	<b>\$ 564,276</b>	<b>\$ 636,553</b>
<b>Total Annual Expenses Last Ten Fiscal Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Operating Expenses</b>					
Maintenance and operating	\$ 248,603	\$ 245,943	\$ 250,226	\$ 266,718	\$ 332,800
Depreciation and Amortization	256,959	228,147	233,401	209,608	224,074
Bad debt expense	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>505,562</b>	<b>474,090</b>	<b>483,627</b>	<b>476,326</b>	<b>556,874</b>
<b>Nonoperating Expenses</b>					
Interest on long-term debt	172,749	164,482	165,509	204,875	201,142
Other expenses	3,315	9,708	722	12,402	4,193
<b>Total Nonoperating Expenses</b>	<b>176,064</b>	<b>174,190</b>	<b>166,231</b>	<b>217,277</b>	<b>205,335</b>
<b>Total Expenses</b>	<b>\$ 681,626</b>	<b>\$ 648,280</b>	<b>\$ 649,858</b>	<b>\$ 693,603</b>	<b>\$ 762,209</b>

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
\$ 324,878	\$ 308,046	\$ 328,435	\$ 351,608	\$ 356,046
307,764	295,423	305,748	323,301	320,722
5,085	6,736	7,760	6,651	8,391
4,935	5,260	6,324	5,678	5,979
<u>642,662</u>	<u>615,465</u>	<u>648,267</u>	<u>687,238</u>	<u>691,138</u>
18,650	36,014	35,436	33,436	15,160
26,557	54,572	84,228	51,262	65,077
<u>45,207</u>	<u>90,586</u>	<u>119,664</u>	<u>84,698</u>	<u>80,237</u>
<u>\$ 687,869</u>	<u>\$ 706,051</u>	<u>\$ 767,931</u>	<u>\$ 771,936</u>	<u>\$ 771,375</u>

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
\$ 302,955	\$ 315,348	\$ 346,652	\$ 371,770	\$ 372,365
228,665	257,722	220,202	204,919	203,695
-	-	-	-	-
<u>531,620</u>	<u>573,070</u>	<u>566,854</u>	<u>576,689</u>	<u>576,060</u>
214,880	242,282	267,505	260,396	273,609
5,622	3,478	19,515	5,432	-
<u>220,502</u>	<u>245,760</u>	<u>287,020</u>	<u>265,828</u>	<u>273,609</u>
<u>\$ 752,122</u>	<u>\$ 818,830</u>	<u>\$ 853,874</u>	<u>\$ 842,517</u>	<u>\$ 849,669</u>

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM REVENUE BOND COVERAGE**  
(amounts expressed in thousands)  
(unaudited)

	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>
<b>OPERATING REVENUES</b>		
Sales of water, net	\$ 356,046	\$ 351,608
Sewer system user charges, net	320,722	323,301
Penalties, other services and charges	14,370	12,329
Total Operating Revenues:	691,138	687,238
<b>NON-OPERATING REVENUES</b>		
Investment Earnings under Previous Ordinance	12,849	16,234
Investment Earnings under Master Ordinance	2,677	6,500
Non-Operating Revenues: Contributions from Water Authorities	34,724	52,815
Transfer from General Purpose Fund	45,000	65,870
Other Non-Operating revenues	18,860	28,671
Total non-operating revenues	114,110	170,090
<b>TOTAL GROSS REVENUES:</b>	<b>805,248</b>	<b>857,328</b>
<b>EXPENSES</b>		
Contract Revenue Bonds Payments <sup>(1)</sup>		
Houston Area Water Corporation debt service	-	-
Coastal Water Authority Debt Service	23,117	28,103
Trinity River Authority Debt Service	-	-
Total Contract Revenue Bonds Payments	23,117	28,103
Maintenance and Operating Expenses	348,796	351,355
Total Expenses	371,913	379,458
<b>RESTRICTED RECEIPTS UNDER MASTER ORDINANCE</b>	<b>9,731</b>	<b>10,001</b>
<b>NET REVENUES UNDER MASTER ORDINANCE</b>	<b>\$ 443,066</b>	<b>\$ 487,871</b>
<b>BOND DEBT SERVICE:</b>		
Previously Issued Bonds	82,540	73,624
First Lien Bonds	264,973	217,112
Total Debt Service	\$ 347,513	\$ 290,736
<b>BOND DEBT SERVICE COVERAGE:</b>		
Junior Lien Bond Coverage under Previous Ordinance <sup>(2)</sup>	5.22 x	6.40 x
First Lien Bond Coverage under Master Ordinance <sup>(3)</sup>	1.36 x	1.91 x
<b>TOTAL COVERAGE <sup>(4)</sup></b>	<b>1.27 x</b>	<b>1.68 x</b>

(1) These are "Required Payments Under Previous Ordinance."

(2) Coverage of debt service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues Investment Earnings under Master Ordinance and Restricted Revenues.

(3) Coverage of Debt Service on First Lien Bonds by Net Revenues, less debt service on Junior Lien Bonds under Previous Ordinance.

(4) Coverage of total Debt Service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues.



**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM STATISTICS**  
**System Budget (Fiscal Year 2011)**  
**(amounts expressed in thousands)**  
**(unaudited)**

The following is the summary of the Fiscal Year 2011 Budget for the System as adopted by City Council:

<b>Revenues</b>	
Beginning Fund Balance (July 1, 2010)	\$ 354,614
Current Revenues	<u>903,861</u>
<b>Total Revenues</b>	<u><u>\$ 1,258,475</u></u>
<b>Expenditures</b>	
Maintenance and Operations	\$ 437,087
CWA/TRA Debt Service	21,368
Debt Service (including Prior Lien Bonds, Junior Lien Bonds and Commercial Paper)	<u>431,036</u>
<b>Total Expenditures</b>	889,491
<b>Other</b>	
General Purpose Fund (including Discretionary Debt Service)	37,311
Planned Fund Balance (June 30, 2011)	<u>331,673</u>
<b>Total Expenditures and Reserves</b>	<u><u>\$ 1,258,475</u></u>

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM STATISTICS**  
**(unaudited)**

The following calculation shows coverage by Net Revenues of Maximum Annual Debt Service on the Previous Ordinance and First Lien Bonds.

Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2012) <sup>(1)</sup>	80,547,031
Maximum Annual Debt Service Requirements on First Lien Bonds (2034) <sup>(1) (2)</sup>	375,813,585
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2021)	375,912,471
Net Revenues under Previous Ordinance for Fiscal Year ended June 30, 2010 <sup>(3)</sup>	430,658,000
Net Revenues under Master Ordinance for Fiscal Year ended June 30, 2010 <sup>(4)</sup>	443,066,000
Funds Available from General Purpose Fund at June 30, 2010	305,984,000
Total Funds available for Debt Service Coverage	749,050,000
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	5.35
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	1.99
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds and First Lien Bond	1.99

(1) Does not include debt service on CWA Bonds, which are payable from Gross Revenues as a Maintenance and Operating Expense of the System.

(2) Series 2008D-1 and 2008D-3 variable rate bond debt service is calculated using current market fixed rates. Debt service is calculated based on an assumed taxable rate with a maturity on the applicable tax-exempt conversion date. After the applicable tax-exempt conversion date, debt service is calculated using a long term tax-exempt rate to maturity. \$249,075,000 of the Series 2010B variable rate bond debt service is calculated at the rate of 5.061% through March 2013 and thereafter at the fixed rate payor swap rate of 3.761%. Series 2004B debt service is adjusted to take into account expected payments under the Series 2004B Qualified Hedge Agreements.

(3) Excludes Investment Earnings under Master Ordinance and Restricted Receipts under Master Ordinance.

(4) Net Revenues as calculated under the Master Ordinance, which includes as revenues restricted receipts and earnings under the Master Ordinance.

(5) Coverage under Master Ordinance for combined debt service on Previous Ordinance Bonds and First Lien Bonds.

**THE SYSTEM - Sewer Facilities General**

The City of Houston Wastewater Operations System receives and processes wastewater generated by residential, commercial, and industrial customers throughout the service area. The service area covers approximately 625 square miles within the City of Houston and serves a population of about 2.8 million people. The Wastewater System consist of over 6,800 miles sanitary sewer lines, 39 wastewater treatment plants, over 400 lift/pumping stations and a centralized laboratory. The general condition of the collection lines varies depending on age, location and type of construction. The average daily wastewater flow through the Wastewater Treatment Facilities for Fiscal Year 2010 was 240 mgd. The permitted treatment capacity of the wastewater treatment facilities, as reflected by State permits, is 563 mgd.

**THE SYSTEM - Annexation Program - In - City Districts**

The City has created reinvestment zones and public improvement districts in which infrastructure improvements, including water and wastewater facilities, will be financed by the respective district or zone through bonds supported by assessments within the districts and by a tax increment fund into which will be deposited the amount of ad valorem taxes collected in the reinvestment zones in excess of the amount calculated on the basis of the property tax appraisals in effect at the time of creation of the particular reinvestment zone. Under State law, the City can create a public improvement district both within the corporate limits of the City and within its extraterritorial jurisdiction.

**CITY OF HOUSTON, TEXAS  
COMBINED UTILITY SYSTEM STATISTICS  
(unaudited)**

**Funding of Proposed System Improvements**

It is anticipated that the system improvements contemplated in the Department's Fiscal Year 2011 - 2015 CIP will be financed approximately as follows:

<b>Proposed Source of Funding</b>	Amount (in millions)
System Revenue Bonds (Net Proceeds and interest earnings) <sup>(1)</sup>	\$ 1,932.0
	<u>\$ 1,932.0</u>

- (1) The department's fiscal year 2011 - 2015 CIP anticipates the periodic issuance of additional First Lien Bonds and Subordinate Lien Commercial Paper. City Council must approve each issuance of bonds, but not each issuance of Commercial Paper Notes.

**Obligations Payable from System Revenues**

The following sets forth the total outstanding principal amount of the system obligations payable from revenues of the system as of June 30, 2010:

<b>Contract Revenue Bonds Payable from System Gross Revenues</b>	Amount
CWA Bonds (3)	\$ 151,665,000
Total	<u>\$ 151,665,000</u>

**System Revenue Bonds Payable from System Net Revenues**

Previous Ordinance Bonds	722,896,000
First Lien Bonds	4,615,885,000
Third Lien Obligations	<u>0</u>
	<u>5,338,781,000</u>
 Total - All Bonds Payable from System Revenues	 <u>\$ 5,490,446,000</u>

- (3) Under a 1968 agreement, as amended and superseded in part, and a 1995 agreement, CWA agreed to construct the CWA conveyance system and certain other projects and the City agreed to pay, as a maintenance and operation expense of the System, amounts calculated to be sufficient to cover maintenance and operation expenses of the CWA Conveyance System plus debt service of the CWA Bonds. CWA has reserved the right to issue an unlimited amount of additional bonds on parity with those currently outstanding, however, such issuances are subject to the approval of the City.

**CITY OF HOUSTON, TEXAS  
COMBINED UTILITY SYSTEM STATISTICS  
(unaudited)**

**Discretionary Debt Service Paid by the System**

The total amount of Discretionary Debt Service paid from Net Revenues of the System for the past nine fiscal years and the amount budgeted for fiscal year 2011 is set forth below:

Fiscal Year	Discretionary Debt Service (in millions)
<u>2011 (budgeted)</u>	<u>\$ 21.7</u>
2010	26.9
2009	28.4
2008	25.8
2007	24.7
2006	26.3
2005	28.2
2004	29.6
2003	23.8

**Combined Utility System General Purpose Fund Transfers for Drainage**

Since Fiscal Year 2005 the Combined Utility System has made transfers from its General Purpose Fund to the Storm Water Fund as shown below.

Fiscal Year	General Purpose Fund Transfers (millions)
<u>2011 (budgeted)</u>	<u>\$ 36.6</u>
2010	40.6
2009	39.4
2008	36.5
2007	34.1
2006	31.3
2005	30.0

**Indirect Charges Paid by the System**

Fiscal Year	Indirect Charges (in thousands)
<u>2011 (budgeted)</u>	<u>\$ 3,034</u>
2010	3,148
2009	2,324
2008	923
2007	2,309
2006	2,157
2005	1,236
2004	4,696
2003	6,877

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS  
 COMBINED UTILITY SYSTEM STATISTICS  
 TREATED WATER/RAW WATER & SEWER ONLY  
 (NOT INCLUDING WHOLESALE NOR RAW WATER)  
 (unaudited)**

<b>Fiscal Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Consumption (in Thousand Gallons)</b>					
RESIDENTIAL	29,298,341	28,910,785	28,366,790	27,190,878	28,089,881
MULTI-FAMILY	27,960,411	26,947,985	26,524,889	26,099,414	25,197,120
COMMERCIAL	23,658,719	23,244,380	22,489,563	22,419,672	21,879,224
GOVERNMENT	4,732,531	4,528,732	4,343,339	4,450,481	4,510,130
SEWER ONLY	1,284,586	1,335,488	1,327,138	1,352,960	1,180,975
OTHER ACCTS	4,133,562	4,319,402	4,187,717	4,410,859	4,503,243
<b>TOTAL</b>	<b>91,068,150</b>	<b>89,286,772</b>	<b>87,239,436</b>	<b>85,924,264</b>	<b>85,360,573</b>
<b>Revenue Amount</b>	<b>\$518,964,748</b>	<b>\$504,300,381</b>	<b>\$493,637,833</b>	<b>\$482,693,814</b>	<b>\$536,457,992</b>
<b>Average Rate / Water &amp; Sewer</b>	<b>\$5.70</b>	<b>\$5.65</b>	<b>\$5.66</b>	<b>\$5.62</b>	<b>\$6.28</b>

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
29,372,166	26,094,949	26,312,961	26,970,248	28,111,338
25,917,787	24,961,804	25,156,968	25,012,299	25,586,924
23,106,449	21,941,537	22,748,096	21,972,495	22,382,315
5,151,211	4,614,053	4,710,923	4,713,905	5,197,448
1,242,852	1,324,905	1,381,145	1,361,135	1,357,879
5,808,363	4,394,176	4,573,030	5,678,987	6,351,286
<u>90,598,828</u>	<u>83,331,424</u>	<u>84,883,123</u>	<u>85,709,069</u>	<u>88,987,190</u>
<u>\$582,872,263</u>	<u>\$558,078,148</u>	<u>\$581,130,048</u>	<u>\$597,498,813</u>	<u>\$640,586,498</u>
\$6.43	\$6.70	\$6.85	\$6.97	\$7.20

**CITY OF HOUSTON, TEXAS**

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**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM STATISTICS**  
**(unaudited)**

**Largest Sewer Customers**

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve month period ended June 30, 2010. The total charges to such customers represent approximately 3.32% of the System Gross Revenues and 7.42% of Sewer Facilities gross charges during such period.

<u>Customer</u>	<u>Gross Charges</u>
1. City of Houston	\$ 5,107,534
2. Anheuser - Busch, Inc.	4,522,038
3. Harris County	3,516,517
4. Houston Independent School District	2,905,729
5. University of Houston	2,108,172
6. Hermann Hospital	1,628,301
7. Maximus Coffee Group	1,487,213
8. Methodist Hospital	1,255,628
9. Dr. Pepper Bottling	1,116,521
10. Exxon	959,404
	<u>\$ 24,607,057</u>

**Water and Sewer Rate Adjustments**

In recent years, the water and sewer rates have been adjusted on the average as follows:

<u>Date of Change</u>	<u>Average Percent Rate</u>	
	<u>Water</u>	<u>Sewer</u>
July 1988	8.5%	7.6%
August 1989	6.0%	7.5%
July 1990	5.5%	7.5%
February 1992	2.0%	6.0%
March 1993	2.5%	4.0%
June 2004	9.7%	9.7%
April 2005	3.5%	3.5%
April 2006	3.6%	3.6%
April 2007	2.8%	2.8%
April 2008	1.8%	1.8%
April 2009	5.1%	5.1%
April 2010	0.3%	0.3%
June 2010	19.1%	22.9%

**CITY OF HOUSTON, TEXAS  
 COMBINED UTILITY SYSTEM STATISTICS  
 Water Supply  
 (unaudited)**

**Capacity, Production, and Sales**

The following schedule sets forth information concerning Water Facilities capacity, production and sales for Fiscal Year 2010 (million gallons per day):

	<u>Available</u>	<u>Capacity</u>	<u>Daily</u>	<u>Peak</u>	<u>Sales</u>
Ground	87.0	253.0	56.0	-	N/A
Surface	1,090.0	1,202.0	605.0	-	N/A
Total	<u>1,177.0</u>	<u>1,455.0</u>	<u>661.0</u>	<u>-</u>	<u>599.0</u>
Treated					354.0
Untreated					245.0
					<u>599.0</u>

**Sources of System Revenues - General**

As of June 30, 2010, the Water Facilities and the Sewer Facilities served approximately 434,857 and 417,668 active service connections, respectively. During Fiscal Year 2010 approximately 49.2% of System Gross Revenues were derived from the sale of water (89.1% from treated water and 10.9% from untreated water), approximately 43.8% from providing wastewater treatment services, 1.6% from interest income and the remaining 5.4% from various other sources. Of the treated water sales, 95.0% of revenues were from retail customers and 5.0% from bulk sales to other governmental entities.

**CITY OF HOUSTON, TEXAS**  
**COMBINED UTILITY SYSTEM STATISTICS**  
**Water Supply**  
**(unaudited)**

**Largest Treated Water Customers**

The following schedule presents information concerning the ten largest treated water customers of the System for the twelve month period ended June 30, 2010. The total charges to such customers during such period represent approximately 3.69% of the System Gross Revenues and 7.51% of total water sales revenues for such period.

<u>Customers</u>	<u>Charges</u>
1. North Channel Water Authority	\$ 5,945,165
2. City of Pasadena	3,510,368
3. Harris County	2,996,680
4. Anheuser Busch, Inc	2,983,289
5. West Harris Co. Regional Water Authority.	2,921,402
6. Houston Independent School District	2,374,022
7. Clear Lake City	2,184,222
8. City of Houston	1,808,434
9. Gulf Coast Water Authority (Galveston)	1,618,279
10. City of Pearland	1,602,523
	<u>\$ 27,944,384</u>

**Largest Untreated Water Customers**

The following schedule presents information concerning the ten largest untreated water customers of the System for a twelve month period ended June 30, 2010. The total of the contract payments by these ten customers during such period represents approximately 3.87% of the System Gross Revenues and 7.87% of total water sales revenues for such period.

<u>Customers</u>	<u>Charges</u>
1. Houston Area Water Corporation	\$ 6,295,132
2. Equistar Chemicals (formerly Zeneca)	5,679,236
3. Shell Oil	3,833,218
4. Battleground Water Company	2,764,168
5. Air Liquide America Corp.	2,362,393
6. Baytown Area	2,120,548
7. Houston Refining, LP (Lyondell -Citgo)	2,046,775
8. Chevron Phillips Chemical Company	1,591,722
9. Hoescht Celanese	1,386,193
10. Occidental Chemical Corporation	1,218,928
	<u>\$ 29,298,313</u>

**COMBINED UTILITY SYSTEM STATISTICS**  
**Debt Service Schedule**  
**(unaudited)**

The following schedule sets forth the principal and interest requirements on all outstanding bonds payable from revenues of the System for each of the City's fiscal years ending June 30 as shown below, based on footnoted assumptions. The following schedule also does not include Discretionary Debt Service Payments or interest on Commercial Paper notes issued as Third Lien Obligations under the Master Ordinance.

Fiscal Year Ending June 30	Total Payable From System Gross Revenues <sup>(1)</sup>	Payable From System Net Revenues			Total Debt Service <sup>(1) (2)</sup>
		Previous Ordinance Bonds	First Lien Bonds <sup>(2)</sup>	Total Payable From System Net Revenues	
2011	\$21,368,014	\$62,675,151	\$270,042,552	\$332,717,703	\$354,085,717
2012	20,587,020	80,547,031	270,804,120	351,351,151	371,938,171
2013	19,835,276	80,470,611	282,573,637	363,044,248	382,879,524
2014	19,044,520	53,782,638	313,418,576	367,201,214	386,245,734
2015	18,246,663	64,082,920	306,600,943	370,683,863	388,930,526
2016	18,033,409	63,995,810	308,537,633	372,533,443	390,566,852
2017	7,555,646	55,627,956	316,829,190	372,457,146	380,012,792
2018	6,750,045	38,068,455	334,384,360	372,452,815	379,202,860
2019	6,741,133	20,680,333	352,028,760	372,709,093	379,450,226
2020	6,737,859	44,215,055	328,494,855	372,709,910	379,447,769
2021	6,755,185	43,100,950	332,811,521	375,912,471	382,667,656
2022	6,718,061	36,151,869	339,609,916	375,761,785	382,479,846
2023	6,711,187	33,247,860	342,500,870	375,748,730	382,459,917
2024	6,703,313	34,487,039	341,134,149	375,621,188	382,324,501
2025	6,693,939	33,357,575	342,319,290	375,676,865	382,370,804
2026	7,662,440	18,155,000	357,217,718	375,372,718	383,035,158
2027	3,550,050	30,815,000	343,399,349	374,214,349	377,764,399
2028	3,550,050	30,810,000	343,619,791	374,429,791	377,979,841
2029	3,547,925	44,095,000	329,832,377	373,927,377	377,475,302
2030	3,547,844	---	374,468,476	374,468,476	378,016,320
2031	3,544,844	---	374,617,888	374,617,888	378,162,732
2032	3,540,550	---	375,704,702	375,704,702	379,245,252
2033	3,534,725	---	375,098,961	375,098,961	378,633,686
2034	3,532,013	---	375,813,585	375,813,585	379,345,598
2035	3,531,938	---	184,346,148	184,346,148	187,878,086
2036	---	---	184,352,959	184,352,959	184,352,959
2037	---	---	161,591,686	161,591,686	161,591,686
2038	---	---	75,708,619	75,708,620	75,708,619
2039	---	---	69,983,581	69,983,581	69,983,581
2040	---	---	725,725	725,725	725,725
<b>TOTAL</b>	<b>\$218,023,649</b>	<b>\$868,366,253</b>	<b>\$8,708,571,937</b>	<b>\$9,576,938,191</b>	<b>\$9,794,961,839</b>

1) Includes CWA Bonds.

(2) Series 2008D-1 and 2008D-3 variable rate bond debt service is calculated using current market fixed rates. Debt service is calculated based on an assumed taxable rate with a maturity on the applicable tax-exempt conversion date. After the applicable tax-exempt conversion date, debt service is calculated using a long term tax-exempt rate to maturity. \$249,075,000 of the Series 2010B variable rate bond debt service is calculated at the rate of 5.061% through March 2013 and thereafter at the fixed rate payor swap rate of 3.761%. Series 2004B debt service is adjusted to take into account expected payments under the Series 2004B Qualified Hedge Agreements.

**CITY OF HOUSTON  
COMBINED UTILITY SYSTEM STATISTICS  
Last Eight Fiscal Years  
(amounts expressed in thousands)  
(unaudited)**

**Revenues and Expenses of the Water and Sewer System**

The following schedule sets forth the revenues and expenses (exclusive of certain non-cash transactions, primarily depreciation and amortization) of the "Water and Sewer System," as defined in the Coastal Water Authority Official Statements, for fiscal years ending June 30, 2003 through June 30, 2010.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>OPERATING REVENUES</b>								
Sales of Water, net	\$ 267,125	\$ 265,272	\$ 301,227	\$ 324,878	\$ 308,046	\$ 332,032	\$ 351,608	\$ 356,046
Sewer system user charges, net	264,159	257,225	288,459	307,764	295,423	305,748	323,301	320,722
Penalties	4,036	4,150	4,605	5,085	6,736	7,759	6,651	8,391
Other services and charges	3,997	4,561	4,583	4,935	5,260	6,325	5,678	5,979
Total Operating Revenues	539,317	531,208	598,874	642,662	615,465	651,864	687,238	691,138
<b>NON-OPERATING REVENUES</b>								
	30,585	93,089	19,771	26,557	54,572	37,779	36,405	44,407
<b>TOTAL GROSS REVENUES (A)</b>	<b>569,902</b>	<b>624,297</b>	<b>618,645</b>	<b>669,219</b>	<b>670,037</b>	<b>689,643</b>	<b>723,643</b>	<b>735,545</b>
<b>OPERATING EXPENSES</b>								
Maintenance and Operating Expenses	250,226	266,718	270,299	301,646	322,083	318,349	383,056	377,858
Contractual Maintenance and Operating Expenses								
CWA Debt Service	28,878	28,980	29,192	29,871	30,653	30,545	28,103	23,117
TRA Debt Service	2,056	2,474	2,354	2,212	2,221	2,096	-	-
HAWC Debt Service	-	6,710	6,710	6,242	8,999	-	-	-
Total Contractual	30,934	38,164	38,256	38,325	41,873	32,641	28,103	23,117
<b>TOTAL OPERATING EXPENSES (B)</b>	<b>281,160</b>	<b>304,882</b>	<b>308,555</b>	<b>339,971</b>	<b>363,956</b>	<b>350,990</b>	<b>411,159</b>	<b>400,975</b>
<b>NET REVENUES</b>	<b>\$ 288,742</b>	<b>\$ 319,415</b>	<b>\$ 310,090</b>	<b>\$ 329,248</b>	<b>\$ 306,081</b>	<b>\$ 338,653</b>	<b>\$ 312,484</b>	<b>\$ 334,570</b>
<b>GROSS REVENUES (A) DIVIDED BY TOTAL EXPENSES (B)</b>								
	2.027	2.048	2.005	1.968	1.841	1.965	1.760	1.834

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM FUND REVENUES AND EXPENSES**  
**Last Ten Fiscal Years**  
**(amounts expressed in thousands)**  
**(unaudited)**

<b>Total Annual Revenues Last Ten Fiscal Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Operating Revenues</b>				
Landing area fees	\$ 48,298	\$ 50,826	\$ 51,162	\$ 57,011
Building and ground area fees	74,168	84,752	91,801	115,777
Parking, concession and other revenues	99,708	91,877	97,804	97,625
<b>Total Operating Revenues</b>	<u>222,174</u>	<u>227,455</u>	<u>240,767</u>	<u>270,413</u>
<b>Nonoperating Revenues</b>				
Interest income	66,846	37,629	30,278	5,967
Passenger facility charges	-	-	-	-
Other nonoperating revenues	828	942	681	203
<b>Total Nonoperating Revenues</b>	<u>67,674</u>	<u>38,571</u>	<u>30,959</u>	<u>6,170</u>
<b>Total Revenues</b>	<u>\$ 289,848</u>	<u>\$ 266,026</u>	<u>\$ 271,726</u>	<u>\$ 276,583</u>
<b>Total Annual Expenses Last Ten Fiscal Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Operating Expenses</b>				
Maintenance and operating	\$ 122,594	\$ 142,950	\$ 154,541	\$ 168,923
Depreciation	52,410	60,088	59,987	88,371
<b>Total Operating Expenses</b>	<u>175,004</u>	<u>203,038</u>	<u>214,528</u>	<u>257,294</u>
<b>Nonoperating Expenses</b>				
Interest expense and others	65,387	44,165	46,538	54,853
<b>Total Nonoperating Expenses</b>	<u>65,387</u>	<u>44,165</u>	<u>46,538</u>	<u>54,853</u>
<b>Total Expenses</b>	<u>\$ 240,391</u>	<u>\$ 247,203</u>	<u>\$ 261,066</u>	<u>\$ 312,147</u>

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 102,072	\$ 101,758	\$ 92,140	\$ 99,017	\$ 82,823	\$ 94,165
151,417	179,951	199,720	211,786	174,433	182,105
100,152	112,152	124,278	136,373	128,501	130,309
<u>353,641</u>	<u>393,861</u>	<u>416,138</u>	<u>447,176</u>	<u>385,757</u>	<u>406,579</u>
14,968	18,507	33,722	41,694	37,332	30,487
-	-	6,530	11,608	32,398	66,383
4,295	56	541	514	1,093	7,525
<u>19,263</u>	<u>18,563</u>	<u>40,793</u>	<u>53,816</u>	<u>70,823</u>	<u>104,395</u>
<u>\$ 372,904</u>	<u>\$ 412,424</u>	<u>\$ 456,931</u>	<u>\$ 500,992</u>	<u>\$ 456,580</u>	<u>\$510,974</u>

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 223,972	\$ 202,496	\$ 214,611	\$ 229,551	\$ 241,303	\$245,051
105,891	134,150	126,953	125,951	136,554	164,186
<u>329,863</u>	<u>336,646</u>	<u>341,564</u>	<u>355,502</u>	<u>377,857</u>	<u>409,237</u>
75,908	94,586	101,193	104,019	93,376	95,235
75,908	94,586	101,193	104,019	93,376	95,235
<u>\$ 405,771</u>	<u>\$ 431,232</u>	<u>\$ 442,757</u>	<u>\$ 459,521</u>	<u>\$ 471,233</u>	<u>\$504,472</u>

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**Passenger Statistics**  
**(unaudited)**

Fiscal Year	<b>Domestic Passengers</b>					
	<b>Intercontinental</b>		<b>Hobby</b>		<b>Ellington Airport</b>	
	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2001	30,105	4.2%	9,038	-0.2%	64	-28.1%
2002	28,168	-6.4%	8,192	-9.4%	68	6.3%
2003	27,931	-0.8%	7,796	-4.8%	81	19.1%
2004	29,473	5.5%	8,089	3.8%	80	-1.2%
2005	31,609	7.2%	8,247	2.0%	14	-82.5%
2006	34,105	7.9%	8,423	2.1%	-	-100.0%
2007	35,260	3.4%	8,642	2.6%	-	-
2008	35,200	-0.2%	9,097	5.3%	-	-
2009	31,995	-9.1%	8,286	-8.9%	-	-
2010	32,093	0.3%	8,755	5.7%	-	-



<b>Domestic Passengers</b>		<b>International Passengers</b>		<b>Total Passengers</b>	
<b>Total</b>		<b>Intercontinental</b>			
Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
39,207	3.1%	5,811	8.8%	45,018	3.8%
36,428	-7.1%	5,556	-4.4%	41,984	-6.7%
35,808	-1.7%	5,526	-0.5%	41,334	-1.5%
37,642	5.1%	5,952	7.7%	43,594	5.5%
39,870	5.9%	6,818	14.5%	46,688	7.1%
42,528	6.7%	7,126	4.5%	49,654	6.4%
43,902	3.2%	7,555	6.0%	51,457	3.6%
44,297	0.9%	7,976	5.6%	52,273	1.6%
40,281	-9.1%	7,642	-4.2%	47,923	-8.3%
40,848	1.4%	8,139	6.5%	48,987	2.2%

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
(unaudited)

**Airline Market Shares**

Domestic	Intercontinental				Hobby			
	Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2009		Fiscal Year 2010	
	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	-	0.0%	65,313	0.2%	-	0.0%	-	0.0%
Air Tran	-	0.0%	-	0.0%	341,408	4.1%	334,988	3.8%
American Airlines, Inc.	837,903	2.1%	736,072	1.8%	-	0.0%	-	0.0%
American Eagle - AA	19,470	0.0%	99,970	0.2%	198,308	2.4%	234,427	2.7%
Atlantic Southeast - DL	15,509	0.0%	55,564	0.1%	24,475	0.3%	93,262	1.1%
Charter Airlines	8,655	0.0%	7,354	0.0%	4,728	0.1%	9,432	0.1%
Chautauqua Airlines - CO	1,440,873	3.7%	475,140	1.2%	-	0.0%	-	0.0%
Chautauqua Airlines - DL	7,595	0.0%	-	0.0%	-	0.0%	-	0.0%
Colgan - Air Inc. - CO	528,210	1.3%	524,431	1.3%	-	0.0%	-	0.0%
Comair - DL	85,899	0.2%	86,609	0.2%	2,809	0.0%	1,542	0.0%
Compass Airlines - DL	-	0.0%	70,513	0.2%	-	0.0%	2,516	0.0%
Compass Airlines - NW	43,804	0.1%	-	0.0%	-	0.0%	-	0.0%
Continental	19,878,793	50.2%	19,524,402	48.6%	-	0.0%	-	0.0%
Delta	256,327	0.6%	462,501	1.1%	40,069	0.5%	3,008	0.0%
Executives - AA	-	0.0%	-	0.0%	35,560	0.4%	30,945	0.4%
ExpressJet Airlines, Inc.	6,258,498	15.9%	7,501,514	18.7%	-	0.0%	-	0.0%
Freedom Airlines - DL	11,365	0.0%	-	0.0%	-	0.0%	-	0.0%
Frontier	204,441	0.5%	224,423	0.6%	-	0.0%	-	0.0%
JetBlue	-	0.0%	-	0.0%	140,014	1.7%	150,044	1.7%
Mesa Airlines, Inc. - UA	37,737	0.1%	27,647	0.1%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - US	149,331	0.4%	14,603	0.0%	-	0.0%	-	0.0%
Mesaba Aviation, Inc. - DL	-	0.0%	159,885	0.4%	-	0.0%	-	0.0%
Mesaba Aviation, Inc. - NW	209,092	0.5%	-	0.0%	-	0.0%	-	0.0%
Northwest	203,254	0.5%	-	0.0%	-	0.0%	-	0.0%
Pinnacle Airlines, Inc. - DL	41,251	0.1%	159,926	0.4%	128,905	1.6%	176,864	2.0%
Pinnacle Airlines, Inc. - NW	54,151	0.1%	-	0.0%	-	0.0%	-	0.0%
Republic Airlines - US	160,727	0.4%	146,741	0.4%	-	0.0%	-	0.0%
Shuttle America Corporation - DL	20,081	0.1%	21,744	0.1%	48,180	0.6%	22,126	0.3%
Shuttle America Corporation - UA	88,012	0.2%	72,106	0.2%	-	0.0%	-	0.0%
SkyWest Airlines - DL	286,040	0.7%	211,361	0.5%	40,982	0.5%	8,397	0.1%
SkyWest Airlines - UA	70,375	0.2%	48,821	0.1%	-	0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	7,280,157	87.8%	7,687,170	87.8%
United Air Lines Inc.	530,174	1.4%	619,122	1.5%	-	0.0%	-	0.0%
US Airways	547,794	1.4%	777,568	1.9%	-	0.0%	-	0.0%
<b>Total Domestic</b>	<b>31,995,361</b>	<b>80.7%</b>	<b>32,093,330</b>	<b>79.8%</b>	<b>8,285,595</b>	<b>100.0%</b>	<b>8,754,721</b>	<b>100.0%</b>
International	Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2009		Fiscal Year 2010	
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
AeroMexico	114,883	0.3%	138,063	0.3%				
Air Canada Jazz	172,349	0.4%	189,385	0.5%				
Air France	202,616	0.5%	163,358	0.4%				
British Airways	208,497	0.5%	220,658	0.5%				
Charter Airlines	876	0.0%	2,227	0.0%				
Continental	5,040,542	12.6%	5,303,028	13.3%				
Emirates	147,654	0.4%	163,269	0.4%				
ExpressJet Airlines, Inc.	1,213,999	3.1%	1,291,483	3.3%				
KLM	183,641	0.5%	177,245	0.4%				
Lufthansa	178,574	0.5%	196,349	0.5%				
Qatar Airways	32,653	0.1%	135,802	0.3%				
Singapore Airlines	59,181	0.1%	80,784	0.2%				
TACA	59,849	0.2%	57,147	0.1%				
World Airways	27,024	0.1%	19,684	0.0%				
<b>Total International</b>	<b>7,642,338</b>	<b>19.3%</b>	<b>8,138,482</b>	<b>20.2%</b>				
<b>Total Airlines</b>	<b>39,637,699</b>	<b>100.0%</b>	<b>40,231,812</b>	<b>100.0%</b>	<b>8,285,595</b>	<b>100.0%</b>	<b>8,754,721</b>	<b>100.0%</b>

Domestic only

Ellington Airport				Houston Airport System			
Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2009		Fiscal Year 2010	
Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
	0.0%		0.0%	-	0.0%	65,313	0.1%
	0.0%		0.0%	341,408	0.7%	334,988	0.7%
	0.0%		0.0%	837,903	1.7%	736,072	1.5%
	0.0%		0.0%	217,778	0.5%	334,397	0.7%
	0.0%		0.0%	39,984	0.1%	148,826	0.3%
	0.0%		0.0%	13,383	0.0%	16,786	0.0%
	0.0%		0.0%	1,440,873	3.0%	475,140	1.0%
	0.0%		0.0%	7,595	0.0%	-	0.0%
	0.0%		0.0%	528,210	1.1%	524,431	1.1%
	0.0%		0.0%	88,708	0.2%	88,151	0.2%
	0.0%		0.0%	-	0.0%	73,029	0.1%
	0.0%		0.0%	43,804	0.1%	-	0.0%
	0.0%		0.0%	19,878,793	41.6%	19,524,402	39.9%
	0.0%		0.0%	296,396	0.6%	465,509	1.0%
	0.0%		0.0%	35,560	0.1%	30,945	0.1%
	0.0%		0.0%	6,258,498	13.1%	7,501,514	15.3%
	0.0%		0.0%	11,365	0.0%	-	0.0%
	0.0%		0.0%	204,441	0.4%	224,423	0.5%
	0.0%		0.0%	140,014	0.3%	150,044	0.3%
	0.0%		0.0%	37,737	0.1%	27,647	0.1%
	0.0%		0.0%	149,331	0.3%	14,603	0.0%
	0.0%		0.0%	-	0.0%	159,885	0.3%
	0.0%		0.0%	209,092	0.4%	-	0.0%
	0.0%		0.0%	203,254	0.4%	-	0.0%
	0.0%		0.0%	170,156	0.4%	336,790	0.7%
	0.0%		0.0%	54,151	0.1%	-	0.0%
	0.0%		0.0%	160,727	0.3%	146,741	0.3%
	0.0%		0.0%	68,261	0.1%	43,870	0.1%
	0.0%		0.0%	88,012	0.2%	72,106	0.1%
	0.0%		0.0%	327,022	0.7%	219,758	0.4%
	0.0%		0.0%	70,375	0.1%	48,821	0.1%
	0.0%		0.0%	7,280,157	15.3%	7,687,170	15.6%
	0.0%		0.0%	530,174	1.1%	619,122	1.3%
	0.0%		0.0%	547,794	1.1%	777,568	1.6%
<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>40,280,956</u>	<u>84.1%</u>	<u>40,848,051</u>	<u>83.4%</u>
Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2009		Fiscal Year 2010	
Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
				114,883	0.2%	138,063	0.3%
				172,349	0.4%	189,385	0.4%
				202,616	0.4%	163,358	0.3%
				208,497	0.4%	220,658	0.5%
				876	0.0%	2,227	0.0%
				5,040,542	10.5%	5,303,028	10.8%
				147,654	0.3%	163,269	0.3%
				1,213,999	2.5%	1,291,483	2.6%
				183,641	0.4%	177,245	0.4%
				178,574	0.4%	196,349	0.4%
				32,653	0.1%	135,802	0.3%
				59,181	0.1%	80,784	0.2%
				59,849	0.1%	57,147	0.1%
				27,024	0.1%	19,684	0.0%
				<u>7,642,338</u>	<u>15.9%</u>	<u>8,138,482</u>	<u>16.6%</u>
<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>47,923,294</u>	<u>100.0%</u>	<u>48,986,533</u>	<u>100.0%</u>

Domestic only

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**Selected Financial Information**  
**Operating Fund Only**  
**For the year ended June 30, 2010**  
(amounts expressed in thousands)  
(unaudited)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Operating Revenues</b>				
Landing Area Fees:				
Landing Fees	\$ 46,735	\$ 49,424	\$ 49,211	\$ 53,906
Carrier Incentive Program	-	-	-	-
Aviation Fuel	895	838	910	1,112
Aircraft Parking	668	564	1,041	1,993
Subtotal	<u>48,298</u>	<u>50,826</u>	<u>51,162</u>	<u>57,011</u>
Building and Ground Area Revenues:				
Building Space	-	-	-	-
Terminal Space	63,172	73,116	79,547	101,040
Cargo Building	1,923	1,863	1,638	982
Other Rental	2,078	2,262	2,192	3,065
Hangar Rental	1,605	1,902	2,499	2,499
Ground Rental	5,388	5,607	5,923	8,189
Concourse Security	2	2	2	2
Subtotal	<u>74,168</u>	<u>84,752</u>	<u>91,801</u>	<u>115,777</u>
Parking, Concession and other Revenues:				
Terminal Concessions	23,721	22,444	25,355	22,563
Auto Parking	51,285	46,955	50,103	51,437
Auto Rental	18,787	16,886	15,978	16,800
Ground Transportation	4,535	3,274	3,834	3,737
Special Events	-	-	-	-
Vending Machine	-	-	-	-
Other Operating Income	1,380	2,318	2,534	3,088
Subtotal	<u>99,708</u>	<u>91,877</u>	<u>97,804</u>	<u>97,625</u>
<b>Total Operating Revenues</b>	<u>\$ 222,174</u>	<u>\$ 227,455</u>	<u>\$ 240,767</u>	<u>\$ 270,413</u>
<b>Nonoperating Revenues</b>				
Interest on Investments	12,396	12,816	10,650	8,406
Other	680	4,520	504	114
Subtotal	<u>13,076</u>	<u>17,336</u>	<u>11,154</u>	<u>8,520</u>
<b>Total Gross Revenues</b>	<u>\$ 235,250</u>	<u>\$ 244,791</u>	<u>\$ 251,921</u>	<u>\$ 278,933</u>
<b>Operation and Maintenance Expenses</b>				
Personnel and Other Current Expenses	\$ 122,542	\$ 142,877	\$ 153,173	\$ 161,204
Bad Debt Expense	52	73	1,368	441
<b>Total Operating and Maintenance Expenses</b>	<u>\$ 122,594</u>	<u>\$ 142,950</u>	<u>\$ 154,541</u>	<u>\$ 161,645</u>
<b>Net Revenue</b>	<u>\$ 112,656</u>	<u>\$ 101,841</u>	<u>\$ 97,380</u>	<u>\$ 117,288</u>
<b>Total Debt Service</b>	\$ 50,027	\$ 51,611	\$ 63,988	\$ 75,797
Less: grant revenue available for debt service	<u>(2,798)</u>	<u>(37,153)</u>	<u>(30,282)</u>	<u>(32,823)</u>
<b>Debt Service Requirement (per Bond Ordinance)</b>	<u>\$ 47,229</u>	<u>\$ 14,458</u>	<u>\$ 33,706</u>	<u>\$ 42,974</u>
<b>Coverage of debt Service</b>	x <u>2.39</u> x	x <u>7.04</u> x	x <u>2.89</u> x	x <u>2.73</u> x

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$	99,197	\$ 98,385	\$ 88,933	\$ 95,730	\$ 81,596	\$ 91,443
	-	-	-	-	(1,176)	(411)
	1,400	1,559	1,540	1,522	1,313	1,329
	<u>1,475</u>	<u>1,814</u>	<u>1,667</u>	<u>1,765</u>	<u>1,090</u>	<u>1,804</u>
	102,072	101,758	92,140	99,017	82,823	94,165
	-	3,741	5,037	5,054	5,017	5,158
	136,074	162,491	182,113	193,375	155,396	161,960
	893	1,553	2,011	2,469	2,374	2,490
	3,354	60	-	-	-	-
	2,077	2,349	3,394	3,473	4,051	4,920
	9,018	9,757	7,165	7,415	7,595	7,577
	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	151,417	179,951	199,720	211,786	174,433	182,105
	19,823	21,030	26,953	29,435	27,003	27,975
	55,444	62,377	65,453	72,958	66,565	70,127
	18,065	21,438	22,950	24,529	24,389	22,889
	3,954	3,999	4,617	4,806	4,724	4,987
	-	20	21	19	20	22
	-	20	-	-	-	-
	<u>2,866</u>	<u>3,268</u>	<u>4,284</u>	<u>4,626</u>	<u>5,800</u>	<u>4,309</u>
	100,152	112,152	124,278	136,373	128,501	130,309
\$	<u>353,641</u>	<u>393,861</u>	<u>416,138</u>	<u>447,176</u>	<u>\$385,757</u>	<u>\$406,579</u>
	10,498	17,742	26,847	30,064	23,664	15,988
	<u>4,175</u>	<u>(58)</u>	<u>483</u>	<u>182</u>	<u>1,522</u>	<u>2,830</u>
	14,673	17,684	27,330	30,246	25,186	18,818
\$	<u>368,314</u>	<u>411,545</u>	<u>443,468</u>	<u>477,422</u>	<u>\$410,943</u>	<u>\$425,397</u>
\$	191,093	\$ 205,565	\$ 217,720	\$ 221,309	\$233,158	\$245,147
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$	<u>191,093</u>	<u>205,565</u>	<u>217,720</u>	<u>221,309</u>	<u>\$233,158</u>	<u>\$245,147</u>
\$	<u>177,221</u>	<u>205,980</u>	<u>225,748</u>	<u>256,113</u>	<u>\$177,785</u>	<u>\$180,250</u>
\$	112,248	\$ 140,513	\$ 144,495	\$ 157,619	\$150,741	\$146,560
	<u>(25,506)</u>	<u>(46,621)</u>	<u>(20,679)</u>	<u>(28,022)</u>	<u>(51,739)</u>	<u>(56,058)</u>
\$	<u>86,742</u>	<u>93,892</u>	<u>123,816</u>	<u>129,597</u>	<u>\$ 99,002</u>	<u>\$ 90,502</u>
	<u>2.04</u>	<u>2.19</u>	<u>1.82</u>	<u>1.98</u>	<u>1.80</u>	<u>1.99</u>

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**Total Aircraft Operations and Aircraft Landing Weight**  
**(unaudited)**

Fiscal Year	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2001	823	(4)	-0.48%	32,083	588	1.87%
2002	790	(33)	-4.01%	30,496	(1,587)	-4.95%
2003	811	21	2.66%	30,802	306	1.00%
2004	856	45	5.55%	31,444	642	2.08%
2005	887	31	3.62%	32,543	1,099	3.50%
2006	933	46	5.19%	32,808	265	0.81%
2007	983	50	5.36%	33,930	1,122	3.42%
2008	974	(9)	-0.92%	34,097	167	0.49%
2009	892	(82)	-8.42%	31,907	(2,190)	-6.42%
2010	858	(34)	-3.81%	31,662	(245)	-0.77%

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**System Debt Service Schedule**  
**(unaudited)**

The following table sets forth the Debt Service Requirements on all Airport Revenue Bonds Outstanding as of June 30, 2010, assuming scheduled mandatory redemption of any term bonds and using rates in effect at year-end for auction rate securities and variable rate demand obligations. The amounts do not include the Airport System's Senior Lien Commercial Paper Notes.

<b>Fiscal Year (ending June 30)</b>	<b>Senior Lien Bonds</b>		<b>Subordinate Lien Bonds</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2011	0	23,818,994	47,235,000	85,936,115	156,990,109
2012	0	23,818,994	52,285,000	83,624,891	159,728,885
2013	0	23,818,994	51,240,000	81,247,950	156,306,943
2014	0	23,818,994	59,015,000	78,795,747	161,629,740
2015	0	23,818,994	59,265,000	76,166,572	159,250,566
2016	9,275,000	23,587,119	61,180,000	73,402,805	167,444,924
2017	9,740,000	23,111,744	67,055,000	70,448,338	170,355,082
2018	10,225,000	22,612,619	70,070,000	67,375,189	170,282,808
2019	10,735,000	22,088,619	70,150,000	64,153,104	167,126,723
2020	11,275,000	21,538,369	79,645,000	60,828,177	173,286,546
2021	11,835,000	20,960,619	72,195,000	57,328,200	162,318,818
2022	12,430,000	20,353,994	91,785,000	53,662,421	178,231,415
2023	13,050,000	19,716,994	92,350,000	49,784,230	174,901,224
2024	13,705,000	19,048,119	90,985,000	45,721,831	169,459,950
2025	14,390,000	18,345,744	103,765,000	41,420,500	177,921,244
2026	15,110,000	17,608,244	104,265,000	36,931,462	173,914,706
2027	15,865,000	16,833,869	97,545,000	32,665,298	162,909,167
2028	16,655,000	16,010,459	126,935,000	28,648,382	188,248,842
2029	17,510,000	15,134,981	120,595,000	24,391,486	177,631,467
2030	18,405,000	14,203,156	123,795,000	19,994,271	176,397,427
2031	19,375,000	13,187,213	123,820,000	15,437,920	171,820,133
2032	20,440,000	12,092,300	130,220,000	9,931,831	172,684,131
2033	21,565,000	10,937,163	142,370,000	3,310,087	178,182,250
2034	22,750,000	9,718,500	0	0	32,468,500
2035	24,000,000	8,432,875	0	0	32,432,875
2036	25,320,000	7,076,575	0	0	32,396,575
2037	26,715,000	5,645,613	0	0	32,360,613
2038	28,185,000	4,135,863	0	0	32,320,863
2039	29,735,000	2,543,063	0	0	32,278,063
2040	31,370,000	862,675	0	0	32,232,675
<b>Total</b>	<b>\$ 449,660,000</b>	<b>\$ 484,881,453</b>	<b>\$ 2,037,765,000</b>	<b>\$ 1,161,206,809</b>	<b>\$ 4,133,513,263</b>

**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**Summary of Certain Fees and Charges**  
**(unaudited)**

	<b>Bush Intercontinental</b>		<b>Hobby</b>	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2009	2010	2009	2010
Landing Rates (1)	\$2.948	\$2.953	\$2.186	\$2.322
Terminal Space Rentals (2)	\$27.06 - \$93.85	\$23.74 - \$71.84	\$94.18 - \$94.36	\$92.74 - \$106.58
Apron (2)	\$2.265 - \$2.865	\$1.992 - \$2.129	\$2.202	\$2.161
Parking Rates (maximum per day)				
Economy	\$6.00	\$6.00	\$6.00	\$8.00
Structured	\$15.00	\$17.00	\$15.00	\$17.00
Sure Park	\$15.00	\$17.00	--	--

(1) Per 1,000 pounds for landing weight

(2) Range per square foot



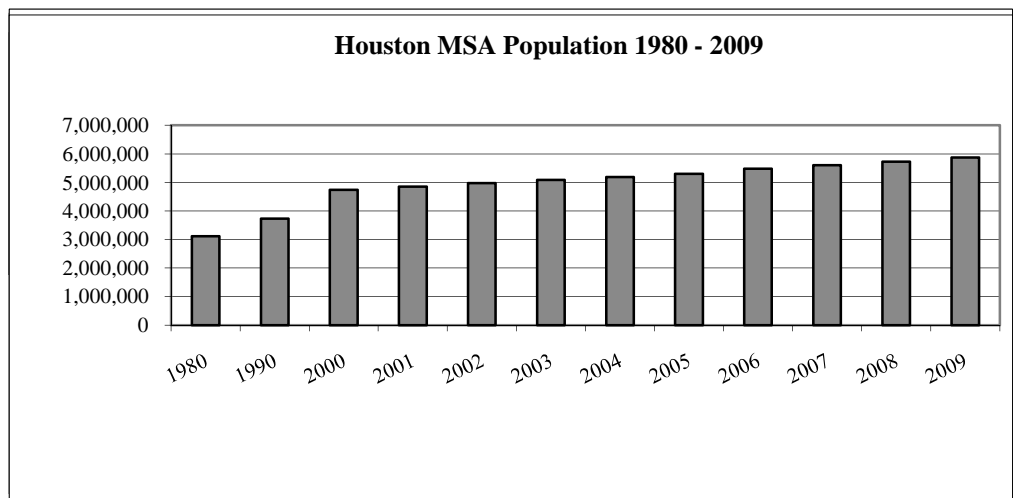
**CITY OF HOUSTON, TEXAS**  
**AIRPORT SYSTEM STATISTICS**  
**Service Area**  
**(unaudited)**

The airport service region for the Houston Airport System consists of (1) the ten county Houston-Sugar Land-Baytown Metropolitan Statistical Area (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller counties) -- referred to as the Houston MSA, and (2) a large secondary area surrounding the Houston MSA. The limits of this secondary area are generally defined by the range and quality of airline service at other air carrier airports, including Beaumont Jefferson County Airport to the east, Dallas/Fort Worth International Airport and Dallas Love Field to the north, Corpus Christi International Airport to the southwest and Austin-Bergstrom International Airport and San Antonio International Airport to the west.

Houston, the nation's fourth most populous city, is the largest in the South and Southwest. The Houston MSA ranks sixth in population among the nation's metropolitan areas.

**Service Area Population**

<b><u>Year</u></b>	<b><u>Houston MSA Population</u></b>
1980	3,118,080
1990	3,731,131
2000	4,739,414
2001	4,851,189
2002	4,978,638
2003	5,084,017
2004	5,190,444
2005	5,299,567
2006	5,484,883
2007	5,597,674
2008	5,726,705
2009	5,867,489



Source: Greater Houston Partnership and U.S. Census Bureau, Population Division

**CITY OF HOUSTON, TEXAS**  
**SURETY BOND AND INSURANCE COVERAGE**  
**June 30, 2010**  
(amounts expressed in thousands)  
(unaudited)

<b>Policy Number</b>	<b>Insurer</b>	<b>Term of Policy</b>
70846103	Western Surety Company	01-02-2010 to 01-02-2012
70846110	Western Surety Company	01-02-2010 to 01-02-2012
61BSBDV0123	Hartford Casualty Insurance Company	12-15-2009 to 12-15-2010
61BSBFQ0813	Hartford Casualty Insurance Company	01-02-2010 to 01-02-2012
61BSBEJ9796	Hartford Casualty Insurance Company	01-24-2010 to 01-24-2011
61BSBEW1429	Hartford Casualty Insurance Company	11-30-2009 to 11-30-2010
61BSDT7808	Hartford Casualty Insurance Company	12-09-2009 to 12-09-2010
IHD 8464461-00	Hanover Insurance Company	10-20-2009 to 10-20-2010
6610	Texas Municipal League	05-15-2010 to 05-15-2011
D37362797002	Westchester Fire Insurance Co. (Primary)	04-01-2010 to 04-01-2011
8706718	Lexington Insurance Company	04-01-2010 to 04-01-2011
PU000601Z	Underwriters at Lloyds	04-01-2010 to 04-01-2011
EAF70044610	Axis Surplus	04-01-2010 to 04-01-2011
ESP003234610	Arch Specialty Insurance Company	04-01-2010 to 04-01-2011
8706719	Lexington Insurance Company	04-01-2010 to 04-01-2011
NHD366353	RSUI Indemnity Insurance Company	04-01-2010 to 04-01-2011
PU000603Z	Underwriters at Lloyds	04-01-2010 to 04-01-2011
ESP6796	Essex Insurance	04-01-2010 to 04-01-2011
ESP003801100	Arch Specialty Insurance Company	04-01-2010 to 04-01-2011
8706719	Lexington Insurance Company	04-01-2010 to 04-01-2011
NHD366353	RSUI Indemnity Insurance Company	04-01-2010 to 04-01-2011
PU000604Z	Underwriters at Lloyds	04-01-2010 to 04-01-2011
PX10DD177B4X	Underwriters at Lloyds 1414	04-01-2010 to 04-01-2011
PU000606Z	Swiss Re International SE	04-01-2010 to 04-01-2011
NHD366354	RSUI Indemnity Insurance Company	04-01-2010 to 04-01-2011
PU000607Z	Ironshore Insurance Ltd.	04-01-2010 to 04-01-2011
PXA574D01	Aspen Insurance UK Limited	04-01-2010 to 04-01-2011
15802234	Lexington Insurance Company	04-01-2010 to 04-01-2011
R2098166654	CNA Insurance Company	02-18-2010 to 02-18-2011
IHD0343965-03	Hanover Insurance Company	06-26-2010 to 06-26-2011
IHD0343965-03	Hanover Insurance Company	06-26-2010 to 06-26-2011
IHD0343965-03	Hanover Insurance Company	06-26-2010 to 06-26-2011
CPS1178152	Scottsdale Insurance Company	02-26-2010 to 02-26-2011
XBS0006950	Scottsdale Insurance Company	02-26-2010 to 02-26-2011
01 841 83 61	Chartis	05-29-2010 to 05-29-2011
61BPEAM5075	Hartford Casualty Insurance Company	10-29-2009 to 10-29-2010
61BPEAI9468	Hartford Casualty Insurance Company	02-11-2010 to 02-11-2011
61BPEC12302	Hartford Insurance	07-01-2009 to 07-01-2010
Various	Western Surety Company	Four Year Term per Bond
GLP0000558506106	Great American Assurance Company	06-18-2010 to 07-10-2010
80851912	Lexington Insurance Company	06-18-2010 to 07-05-2010
25819871	National Union Fire Insurance	07-01-2009 to 07-01-2010
61UUTT9450	Hartford Casualty Insurance Company	09-14-2009 to 09-14-2010
61UENTT8607	Hartford Casualty Insurance Company	09-14-2009 to 09-14-2010
61XHUTT024	Hartford Casualty Insurance Company	09-14-2009 to 09-14-2010
61WEGF1105	Hartford Underwriters Insurance	09-14-2009 to 09-14-2010
61BDDAQ8560	Hartford Casualty Insurance Company	06-04-2010 to 06-04-2011

<b>Property at Risk</b>	<b>Type of Coverage</b>	<b>Coverage (in thousands)</b>
Mayor	Public Official Bond	\$ 50
City Controller	Public Official Bond	\$ 50
City Treasurer	Public Official Bond	\$ 25
Deputy Controller	Public Official Bond	\$ 25
Municipal Courts	Public Official Bond	\$ 25
Tax Collector	Public Official Bond	\$ 25
HMEPS (Pension) Treasurer	Public Official Bond	\$ 250
Houston Area Library Automated Network (HALAN)	Electronic Equipment	\$ 1,470
City of Houston	Automobile Catastrophe	\$ 1,506
City of Houston	Property Insurance *	\$ 5,000
City of Houston	Property Insurance *	\$ 20,000
City of Houston	Property Insurance *	\$ 8,250
City of Houston	Property Insurance *	\$ 6,335
City of Houston	Property Insurance *	\$ 2,500
City of Houston	Property Insurance *	\$ 6,665
City of Houston	Property Insurance *	\$ 1,250
City of Houston	Property Insurance *	\$ 24,170
City of Houston	Property Insurance *	\$ 5,000
City of Houston	Property Insurance *	\$ 5,000
City of Houston	Property Insurance *	\$ 13,330
City of Houston	Property Insurance *	\$ 2,500
City of Houston	Property Insurance *	\$ 16,500
City of Houston	Property Insurance *	\$ 5,000
City of Houston	Property Insurance *	\$ 7,500
City of Houston	Property Insurance *	\$ 5,000
City of Houston	Property Insurance *	\$ 10,000
City of Houston	Property Insurance *	\$ 6,000
City of Houston	Terrorism Insurance	\$ 100,000
City of Houston	Boiler & Machinery	\$ 100,000
City of Houston	Library - Business, Electronic Equip.	\$ 1,228
City of Houston	Library - Valuable Papers	\$ 4,047
City of Houston	Library - Fine Art	\$ 4,936
Holcombe Health Lab	Commercial General Liability	\$ 1,000
Holcombe Health Lab	Excess Liability	\$ 5,000
City of Houston	Public Employee Dishonesty/Crime	\$ 2,000
Parks Board	Public Employee Dishonesty	\$ 10
Library Board	Public Employee Dishonesty	\$ 10
Houston Read Commission	Employee Dishonesty	\$ 375
Various City of Houston Notaries	Notary Public Bonds	\$ 3
City of Houston	Special Event Commercial General Liability	\$ 1,000
City of Houston	Adverse Weather Event Cancellation	\$ 850
Houston Area Water Corporation (HAWC)	Directors and Officers Liability	\$ 10,000
Houston Image Group	Commercial General Liability	\$ 2,000
Houston Image Group	Automobile Liability	\$ 1,000
Houston Image Group	Excess Liability	\$ 5,000
Houston Image Group	Workers' Compensation	\$ 1,000
Houston Image Group	Employee Theft and Depositors Forgeries	\$ 225

\* The property insurance is provided by insurance carriers that underwrite varying pro-rata shares of coverage that total to the policy loss limit.

**CITY OF HOUSTON, TEXAS**  
**SALARIES OF ELECTED OFFICIALS**  
**June 30, 2010**  
**(unaudited)**

<b><u>Name and Title of Official</u></b>	<b><u>Authorized Annual Base Salary</u></b>
Annise D. Parker, Mayor	\$ 209,138
Ronald C. Green, City Controller	139,426
Brenda Stardig, Council Member - District A	55,770
Jarvis Johnson, Council Member - District B	55,770
Anne U. Clutterbuck, Council Member - District C	55,770
Wanda E. Adams, Council Member - District D	55,770
Michael S. Sullivan, Council Member - District E	55,770
Al D. Hoang, Council Member - District F	55,770
Olin Pennington, Council Member - District G	55,770
Edward Gonzalez, Council Member - District H	55,770
James G. Rodriguez, Council Member - District I	55,770
Stephen C. Costello, Council Member - At Large Position 1	55,770
Susan E. Lovell, Council Member - At Large Position 2	55,770
Melissa L. Noriega, Council Member - At Large Position 3	55,770
Clarence O. Bradford, Council Member - At Large Position 4	55,770
Jolanda F. Jones, Council Member - At Large Position 5	55,770

**CITY OF HOUSTON, TEXAS**  
**Schedule of Credits**  
**(unaudited)**

**Comprehensive Annual Financial Report:**

**Controller's Office**

**Executive/Administrative Divisions**

Ronald C. Green, City Controller

Chris Brown, Chief Deputy City Controller

Shannan Nobles, Deputy Director

Roger Widmeyer, Director of Communications

**Design Oversight and Writing**

**Financial Reporting Division**

Carl Medley, Deputy Director - Controllers

Michael Abbott, Assistant City Controller

Jacqueline Brown, Administrative Specialist

Alicia Cai, Assistant City Controller

Wesley Dormer, Assistant City Controller

Rosa Henderson, Assistant City Controller

Larry Liu, Assistant City Controller

Chris Okeagu, Assistant City Controller

Beverly Riggans, Assistant City Controller

Irma Rodriguez, Assistant City Controller

Suong Vu, Assistant City Controller

Dinah Walter, Assistant City Controller

Bonita Wright, Assistant City Controller

**Preparation and Coordination**

**Operations and Technical Services Division**

Harry Singh, Acting Deputy City Controller

Brenda Jackson, System Support Analyst

Brenda Johnson, Administrative Coordinator

Martina Lee, Operations Manager

Ella Mamou, Records Supervisor

Annie Nguyen, Administrative Supervisor

Courtney Satterwhite, Assistant City Controller

Daniel Schein, System Support Analyst

Lillie Stewart, Administrative Supervisor

**Consulting and General Support**

**Treasury Division**

Sue Bailey, Treasury Manager, Investment Management

Shawnell Holman-Smith, Treasury Manager, Debt Management

Han Au, Senior Treasury Analyst

Kendrack Lewis, Management Analyst

Lillie Nobles, Administrative Specialist

Asha Patnaik, Senior Treasury Analyst

Marvin Ramirez, Treasury Analyst

Catherine Smith, Financial Analyst

**Debt and Management Disclosures**

**Audit Division**

David Schroeder, City Auditor

Scott Haiflich, Auditor

Courtney Smith, Audit Manager

Natividad (Nat) Uresti, Audit Supervisor

Getachew (George) Wakgira, Audit Supervisor

Marda Waters, Audit Supervisor

**Audit Support and Testing Assistance**

**CITY OF HOUSTON, TEXAS**  
**Schedule of Credits - Continued**  
**(unaudited)**

**Finance Department**

Michelle Mitchell, Director

Jack Alexander, Deputy Director

Greg Carrington, Division Manager

Harold Jackson, Division Manager

Ronald Kissner, Deputy Assistant Director

Jim Locke, Assistant Director

Jon Reistoffer, Division Manager

Sylvia Shaw, Division Manager

Shreng Ung, Financial Analyst

Nancy Wong, Financial Analyst

**Preparation, Coordination, Analysis and Documentation**

**Administration & Regulatory Affairs Department**

Alfred Moran, Director

Florencio Briones, Management Analyst

Harlon Brown, Division Manager

Annabelle Chen, Assistant Director

Chia-Hsuan (CH) Chiou, Financial Analyst

Belinda Crawford, Accountant Associate

Aileen Ding, Financial Analyst

Hannah Hoang, Accountant

Juan Olguin, Deputy Assistant Director

William Stanley, Division Manager

Kathy Vaughn, Payroll Supervisor

Bill Wickliffe, Division Manager

**Analysis and Supporting Documentation**

**Information Technology Department**

Richard Lewis, Director

Susan Cox, Systems Accountant

Vijaya Devireddy, Systems Consultant

Mary Ann Grant, Deputy Director

Ron Headley, Division Manager

Earl Lambert, Citywide Chief Technology Officer

Melanie West, ERP Business Systems Consultant

**SAP/ ERP Consulting, Support & Development**

**Professional Consultants**

Houston Independent School District Printing Services

Charlie Holden, Senior Manager

Michael McClay, Manager, Graphic Design

Debbie Roberts, Outside Sales Representative

Connie Cole, Graphic Designer

**Project Management and Design**

Deloitte & Touche LLP

**Independent Auditors**

This schedule by no means gives credit to all of the individuals who have some part in the development and production of this Comprehensive Annual Financial Report. However, we have included the major participants who made the issuance of this document possible.