

CITY OF DALLAS, TEXAS
STATEMENT OF NET ASSETS
As of September 30, 2004
(in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$580,711	\$93,381	\$674,092	767
Other investments, at fair value	31,157	0	31,157	0
Receivables	99,546	51,378	150,924	22
Interfund balances	(1,241)	1,241	0	0
Inventories, at cost	8,188	4,965	13,153	0
Other assets	2,670	9,028	11,698	0
Special assessments	11,718	0	11,718	0
Restricted assets:				
Cash and cash equivalents	0	419,019	419,019	0
Other investments	0	82,387	82,387	0
Capital assets:				
Land and water rights	317,893	567,651	885,544	0
Artwork	48,702	0	48,702	0
Construction in progress	245,593	568,668	814,261	0
Infrastructure assets	1,285,861	412,868	1,698,729	0
Buildings	662,456	1,277,115	1,939,571	0
Improvements	149,887	173,249	323,136	0
Equipment	373,586	384,547	758,133	0
Utility property	0	1,606,442	1,606,442	0
Less accumulated depreciation	(1,103,999)	(1,293,211)	(2,397,210)	0
Total assets	<u>2,712,728</u>	<u>4,358,728</u>	<u>7,071,456</u>	<u>789</u>
Liabilities:				
Accrued payroll	12,593	728	13,321	0
Accounts payable	28,678	12,597	41,275	0
Due to other governments	1	6	7	0
Other	71,776	1,759	73,535	0
Construction accounts payable	0	33,087	33,087	0
Accrued bond interest payable	10,525	33,397	43,922	0
Commercial notes payable	0	160,872	160,872	0
Deferred revenue	8,775	1,067	9,842	0
Customer deposits	4,915	6,073	10,988	0
Customer construction advances	0	6,616	6,616	0
Noncurrent liabilities:				
Due within one year	213,844	98,546	312,390	0
Due in more than one year	1,071,336	1,646,169	2,717,505	0
Total liabilities	<u>1,422,443</u>	<u>2,000,917</u>	<u>3,423,360</u>	<u>0</u>
Net assets (liabilities):				
Invested in capital assets, net of related debt	1,385,085	2,070,434	3,455,519	0
Restricted for:				
Capital projects	67,389	0	67,389	0
Debt service	13,063	162,494	175,557	0
Permanent funds - nonexpendable	8,183	0	8,183	0
Other external restrictions	19,503	0	19,503	0
Unrestricted	(202,938)	124,883	(78,055)	789
Total net assets	<u>\$1,290,285</u>	<u>\$2,357,811</u>	<u>\$3,648,096</u>	<u>\$789</u>

See accompanying notes to basic financial statements.

CITY OF DALLAS, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2004
(in thousands)

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$138,258	\$65,589	\$14,297	\$55
Public safety	532,891	33,649	9,683	0
Streets, street lighting, sanitation and code enforcement	130,377	69,929	1,403	52
Environmental and health services	26,960	5,812	22,134	0
Public works and transportation	30,404	10,800	515	4,406
Equipment and building services	30,864	1,400	0	7,023
Culture and recreation	113,135	15,741	7,599	106
Housing	1,515	36	0	0
Human services	31,750	15,122	18,294	0
Interest on long-term debt	34,161	0	0	0
Total governmental activities	<u>1,070,315</u>	<u>218,078</u>	<u>73,925</u>	<u>11,642</u>
Business-type activities:				
Water utilities	341,238	341,789	0	17,489
Convention center	77,486	18,611	0	0
Airport	41,499	30,646	0	59,544
Municipal radio	3,789	2,977	0	0
Building inspection	20,428	20,215	0	35
Total business-type activities	<u>484,440</u>	<u>414,238</u>	<u>0</u>	<u>77,068</u>
Total primary government	<u>1,554,755</u>	<u>632,316</u>	<u>73,925</u>	<u>88,710</u>
Component units:	162	209	0	0
Total component units	<u>\$162</u>	<u>\$209</u>	<u>\$0</u>	<u>\$0</u>

General revenues:
Sales taxes
Ad valorem tax
Franchise tax
Other taxes
Investment income
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See accompanying notes to basic financial statements.

Net (expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
(\$58,317)		(\$58,317)	\$0
(489,559)		(489,559)	0
(58,993)		(58,993)	0
986		986	0
(14,683)		(14,683)	0
(22,441)		(22,441)	0
(89,689)		(89,689)	0
(1,479)		(1,479)	0
1,666		1,666	0
(34,161)		(34,161)	0
<u>(766,670)</u>		<u>(766,670)</u>	
0	\$18,040	18,040	0
0	(58,875)	(58,875)	0
0	48,691	48,691	0
0	(812)	(812)	0
0	(178)	(178)	0
<u>0</u>	<u>6,866</u>	<u>6,866</u>	
<u>(766,670)</u>	<u>6,866</u>	<u>(759,804)</u>	
			<u>47</u>
			<u>\$47</u>
194,989	0	194,989	0
458,137	0	458,137	0
114,313	0	114,313	0
0	47,105	47,105	0
12,263	9,864	22,127	10
13,341	16,643	29,984	0
3,776	(3,776)	0	0
<u>796,819</u>	<u>69,836</u>	<u>866,655</u>	<u>10</u>
30,149	76,702	106,851	57
1,260,136	2,281,109	3,541,245	732
<u>\$1,290,285</u>	<u>\$2,357,811</u>	<u>\$3,648,096</u>	<u>\$789</u>

CITY OF DALLAS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
As of September 30, 2004
(in thousands)

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Pooled cash and cash equivalents	\$71,319	\$6,169	\$482,765	\$560,253
Receivables:				
Ad valorem tax	27,732	11,165	0	38,897
Sales tax	34,202	0	0	34,202
Notes	1	0	11,720	11,721
Accounts	31,566	0	3,885	35,451
Accrued interest	160	4	832	996
Allowance for uncollectible accounts	(34,332)	(8,559)	(1,162)	(44,053)
Due from other governments	0	0	22,302	22,302
Due from other funds	1,321	2,762	0	4,083
Other investments, at fair value	14,191	2,382	14,584	31,157
Inventories, at cost	5,461	0	0	5,461
Special assessments	0	0	11,718	11,718
Notes receivable from other funds	0	4,031	4,469	8,500
Total assets	<u>151,621</u>	<u>17,954</u>	<u>551,113</u>	<u>720,688</u>
Liabilities and Fund Balances				
Liabilities:				
Accrued payroll	12,242	0	142	12,384
Accounts payable	11,796	67	12,891	24,754
Due to other funds	2,324	0	1,729	4,053
Deferred revenues	18,255	1,916	32,825	52,996
Due to other governments	0	0	1	1
Notes payable to other funds	308	0	9,463	9,771
Customer deposits	4,906	0	9	4,915
Other	18,541	49	52,613	71,203
Total liabilities	<u>68,372</u>	<u>2,032</u>	<u>109,673</u>	<u>180,077</u>
Fund balances:				
Reserved for:				
Encumbrances	12,248	0	179,933	192,181
General government	0	0	344	344
Culture and recreation	0	0	7,839	7,839
Notes Receivable	0	4,031	4,469	8,500
Debt service	0	11,891	0	11,891
Unreserved, designated in:				
General fund	42,165	0	0	42,165
Unreserved, undesignated in:				
General fund	28,836	0	0	28,836
Capital project funds	0	0	209,095	209,095
Special revenue funds	0	0	39,760	39,760
Total fund balance	<u>83,249</u>	<u>15,922</u>	<u>441,440</u>	<u>540,611</u>
Total liabilities and fund balance	<u>\$151,621</u>	<u>\$17,954</u>	<u>\$551,113</u>	<u>\$720,688</u>

See accompanying notes to basic financial statements.

CITY OF DALLAS, TEXAS
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
As of September 30, 2004
(in thousands)

Total fund balances - governmental funds \$540,611

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

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

Land	316,197	
Artwork	48,702	
Construction in progress	244,219	
Infrastructure assets	1,284,039	
Buildings	658,021	
Improvements	148,898	
Equipment	199,958	
Accumulated depreciation	<u>(981,590)</u>	
Total capital assets	<u><u>1,918,444</u></u>	1,918,444

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 44,221

Internal service funds are used by management to charge the costs of certain activities, such as equipment services, communication equipment services, office services, information services, and insurance. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets (30,296) (30,296)

Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable and capital leases, less unamortized bond premium	854,494	
Unamortized bond issue cost	(1,409)	
Accrued interest on bonds	10,525	
Net pension obligations	100,191	
Section 108 HUD notes	6,190	
Arbitrage rebate payable	474	
Judgment related to landfill	25,723	
Compensated absences	168,759	
Landfill closure & post-closure	<u>17,748</u>	
Total long-term liabilities	<u><u>1,182,695</u></u>	<u>(1,182,695)</u>
Net assets of governmental activities		<u><u>\$1,290,285</u></u>

See accompanying notes to basic financial statements.

CITY OF DALLAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2004
(in thousands)

	General	Debt Service	Other Governmental Funds	Total
Revenues				
Ad valorem tax	\$341,620	\$114,783	\$12,213	\$468,616
Sales tax	194,989	0	0	194,989
Other tax	114,103	0	210	114,313
Licenses and permits	3,044	0	0	3,044
Intergovernmental	5,127	0	72,241	77,368
Service to others	111,555	0	32,356	143,911
Fines and forfeits	30,135	0	107	30,242
Investment income	2,511	505	8,604	11,620
Gifts	0	0	7,924	7,924
Confiscated money awards	0	0	1,450	1,450
Other	21,347	1,336	19,535	42,218
Total revenues	824,431	116,624	154,640	1,095,695
Expenditures				
General government	83,854	0	47,197	131,051
Public safety	473,873	0	10,410	484,283
Streets, street lighting, sanitation, and code enforcement	112,832	0	5,104	117,936
Environmental and health services	12,466	0	12,035	24,501
Public works and transportation	19,268	0	0	19,268
Equipment and building services	28,049	0	0	28,049
Culture and recreation	90,103	0	11,244	101,347
Housing	1,377	0	0	1,377
Human services	0	0	28,854	28,854
Debt service:				
Principal	0	90,256	0	90,256
Interest and fiscal charges	0	38,226	0	38,226
Capital outlay	0	0	121,433	121,433
Total expenditures	821,822	128,482	236,277	1,186,581
Excess (deficiency) of revenues over (under) expenditures	2,609	(11,858)	(81,637)	(90,886)
Other financing sources (uses)				
Capital Contribution	0	0	1,120	1,120
Transfers in	10,285	16,906	19,230	46,421
Transfers out	(10,449)	(245)	(25,427)	(36,121)
Proceeds from sale of fixed assets	0	0	1,175	1,175
Premium on bonds	0	4,460	949	5,409
Bond proceeds	0	750	201,360	202,110
Proceeds of refunding bonds	0	56,015	0	56,015
Payment to refunded bond escrow agent	0	(59,943)	0	(59,943)
Total other financing sources and uses	(164)	17,943	198,407	216,186
Excess of revenues and transfers in over expenditures and transfers out	2,445	6,085	116,770	125,300
Fund balances, beginning of year	80,804	9,837	324,670	415,311
Fund balances, end of year	\$83,249	\$15,922	\$441,440	\$540,611

See accompanying notes to basic financial statements

CITY OF DALLAS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2004
(in thousands)

Net change in fund balances--total governmental funds		\$125,300
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay expenditures	107,607	
Depreciation expense	<u>(56,543)</u>	
Net adjustment	<u>51,064</u>	51,064
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is to recognize the net change in "unavailable" revenues.		(10,479)
The issuance of long-term debt (e.g., bonds, tax anticipation notes) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report 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.		
Debt issued:		
Premium on issuance	5,409	
Refunding bonds	56,015	
General obligation bonds and certificates of obligation	202,110	
Repayments:		
Deferred loss on refunding	(3,043)	
Payment of section 108 loans	(6,710)	
Payment of refunded bonds escrow	(59,943)	
To bondholders	<u>(90,256)</u>	
Net adjustment	<u>103,582</u>	(103,582)
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.		
Accrued interest on general obligation bonds & tax anticipation notes	(1,663)	
Bond issuance costs	(1,432)	
Amortization of premium and deferred charges	(970)	
Decrease in the net pension obligation	(9,940)	
Increase in the amount of compensated absences	25,866	
Decrease in arbitrage rebate liability	(2,550)	
Increase in landfill closure cost	604	
Decrease in judgement related to landfill	(9,277)	
Decrease in unfunded claims	<u>(1,864)</u>	
Total adjustment	<u>(1,226)</u>	1,226
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, insurance, compensated absences and computer replacement, to individual funds. The external revenue generated by these funds (interest income and gain on sale of equipment) is reported with the governmental activities.		(33,380)
Change in net assets of governmental activities		<u>\$30,149</u>
See accompanying notes to basic financial statements.		

CITY OF DALLAS, TEXAS
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-GAAP BUDGETARY BASIS
Year Ended September 30, 2004
(in thousands)

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$344,207	\$344,207	\$345,138	\$931
Sales tax	178,391	178,391	194,989	16,598
Other tax	100,980	116,576	114,103	(2,473)
Licenses and permits	6,843	3,419	3,044	(375)
Intergovernmental	4,837	5,944	5,127	(817)
Services to others	110,089	109,433	111,555	2,122
Fines and forfeitures	33,737	33,246	29,159	(4,087)
Interest	3,142	3,334	2,511	(823)
Other	7,137	8,655	21,348	12,693
Total revenues	<u>789,363</u>	<u>803,205</u>	<u>826,974</u>	<u>23,769</u>
Expenditures:				
General government	91,875	82,419	83,401	(982)
Public safety	469,221	468,905	473,897	(4,992)
Streets, street lightning, sanitation, and code enforcemer	98,864	110,659	113,890	(3,231)
Environmental and health services	13,089	12,971	12,433	538
Public works and transportation	19,063	20,063	19,156	907
Equipment and building services	28,022	27,996	27,752	244
Culture and recreation	88,982	88,908	89,983	(1,075)
Housing	1,407	1,407	1,326	81
Total expenditures	<u>810,523</u>	<u>813,328</u>	<u>821,838</u>	<u>(8,510)</u>
Excess (deficiency) of revenues over (under) expenditures	(21,160)	(10,123)	5,136	15,259
Other financing sources (uses):				
Transfers in	35,426	24,707	10,285	(14,422)
Transfers out	(14,098)	(14,213)	(10,449)	3,764
Total other financing sources	<u>21,328</u>	<u>10,494</u>	<u>(164)</u>	<u>(10,658)</u>
Excess of revenues and other financing source over expenditures and other use:	168	371	4,972	4,601
Fund balances, beginning of year	80,804	80,804	80,804	0
Fund balances, end of year	<u>\$80,972</u>	<u>\$81,175</u>	<u>\$85,776</u>	<u>\$4,601</u>

See accompanying notes to basic financial statements

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CITY OF DALLAS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of September 30, 2004
(in thousands)

	Business-type Activities Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Dallas Water Utilities	Convention Center	Airport Revenues	Nonmajor Enterprise Funds		
Assets:						
Current assets:						
Pooled cash and cash equivalents	\$16,979	\$11,501	\$52,793	\$12,108	\$93,381	\$20,458
Receivables:						
Accounts	44,551	7,569	2,025	1,478	55,623	12
Accrued interest	608	54	49	13	724	18
Allowance for uncollectibles	(3,373)	0	(1,879)	(29)	(5,281)	0
Due from other governments	0	0	312	0	312	0
Due from other funds	408	0	2,324	0	2,732	0
Prepaid expenses	0	0	0	0	0	12
Inventories, at cost	4,625	152	188	0	4,965	2,727
Restricted assets:						
Held for construction purposes:						
Pooled cash and cash equivalents	147,943	7,157	0	0	155,100	0
Cash and cash equivalents	116,399	0	0	0	116,399	0
Customer assessments	412	0	0	0	412	0
Pooled cash and cash equivalents for current debt service	99,564	6,293	0	0	105,857	0
Customer deposits:						
Pooled cash and cash equivalents	5,918	0	0	0	5,918	0
Other	0	0	0	0	0	1,249
Total current assets	<u>434,034</u>	<u>32,726</u>	<u>55,812</u>	<u>13,570</u>	<u>536,142</u>	<u>24,476</u>
Capital Assets:						
Land and water rights	426,203	87,820	53,628	0	567,651	1,696
Buildings	353,779	615,971	307,044	321	1,277,115	4,435
Improvements other than buildings	19,460	52,799	100,919	71	173,249	989
Infrastructure	396,488	11,094	5,286	0	412,868	1,822
Equipment	335,184	39,809	7,548	2,006	384,547	173,628
Utility property	1,606,442	0	0	0	1,606,442	0
Accumulated depreciation	(1,027,087)	(114,890)	(149,702)	(1,532)	(1,293,211)	(122,409)
Construction in progress	523,365	1,792	43,330	181	568,668	1,374
Total capital assets	<u>2,633,834</u>	<u>694,395</u>	<u>368,053</u>	<u>1,047</u>	<u>3,697,329</u>	<u>61,535</u>
Other noncurrent assets:						
Restricted assets:						
Pooled cash and cash equivalents for future debt service	124	35,621	0	0	35,745	0
Other investments for future debt service at fair value	53,563	28,412	0	0	81,975	0
Notes receivable from other funds	5,302	0	0	0	5,302	0
Other assets	5,031	3,997	0	0	9,028	0
Total other noncurrent assets	<u>64,020</u>	<u>68,030</u>	<u>0</u>	<u>0</u>	<u>132,050</u>	<u>0</u>
Total assets	<u>\$3,131,888</u>	<u>\$795,151</u>	<u>\$423,865</u>	<u>\$14,617</u>	<u>\$4,365,521</u>	<u>\$86,011</u>

See accompanying notes to the basic financial statements

CITY OF DALLAS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS (continued)
As of September 30, 2004
(in thousands)

	Business-type Activities Enterprise Funds					Governmental Activities- Internal Service Funds
	Dallas Water Utilities	Convention Center	Airport Revenues	Nonmajor Enterprise Funds	Total	
Liabilities:						
Current liabilities:						
Accrued payroll	\$528	\$50	\$50	\$100	\$728	\$209
Accounts payable	9,554	1,747	1,146	150	12,597	3,924
Accrued vacation and sick	6,347	470	585	1,276	8,678	2,837
Due to other governments	0	6	0	0	6	0
Due to other funds	2,762	0	0	0	2,762	0
Estimated unpaid health claims	0	0	0	0	0	16,603
Estimated unpaid claims - general	0	0	0	0	0	9,330
Workers' compensation	0	0	0	0	0	18,500
Accrued bond interest payable	0	0	1,097	0	1,097	0
Revenue bonds	0	0	5,555	0	5,555	0
Other	75	1,028	571	85	1,759	142
Total current liabilities	19,266	3,301	9,004	1,611	33,182	51,545
Current liabilities (payable from restricted assets):						
Construction accounts payable	33,087	0	0	0	33,087	0
Commercial paper notes payable	160,872	0	0	0	160,872	0
Accrued water supply obligation	7,233	0	0	0	7,233	0
Accrued interest on contractual obligations	134	0	0	0	134	0
Accrued bond interest payable	29,481	2,685	0	0	32,166	0
Revenue bonds	65,550	11,530	0	0	77,080	0
Total current liabilities (payable from restricted assets)	296,357	14,215	0	0	310,572	0
Noncurrent liabilities:						
Notes payable to other funds	4,031	0	0	0	4,031	0
Revenue bonds	1,163,306	395,814	39,550	0	1,598,670	0
Total long-term debt	1,167,337	395,814	39,550	0	1,602,701	0
Other liabilities:						
Estimated unpaid claims-general	0	0	0	0	0	11,201
Workers compensation	0	0	0	0	0	48,874
Deferred revenue	0	919	148	0	1,067	0
Customer deposits	5,910	163	0	0	6,073	0
Customer construction advances	6,608	0	8	0	6,616	0
Accrued vacation and sick	9,520	705	877	1,914	13,016	4,256
Net pension obligation	25,598	1,831	2,395	4,659	34,483	0
Other	0	0	0	0	0	431
Total other liabilities	47,636	3,618	3,428	6,573	61,255	64,762
Total liabilities	1,530,596	416,948	51,982	8,184	2,007,710	116,307
Net Assets						
Invested in capital assets, net of related debt	1,447,858	298,581	322,948	1,047	2,070,434	61,535
Restricted:						
Revenue bond requirements	133,415	29,079	0	0	162,494	0
Unrestricted	20,019	50,543	48,935	5,386	124,883	(91,831)
Total net assets	\$1,601,292	\$378,203	\$371,883	\$6,433	\$2,357,811	(\$30,296)

See accompanying notes to the basic financial statements

CITY OF DALLAS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended September 30, 2004
(in thousands)

	Business-type Activities Enterprise Funds					Governmental Activities- Internal Service Funds
	Dallas Water Utilities	Convention Center	Airport Revenue	Nonmajor Enterprise Funds	Total	
Operating revenues:						
Customer charges	\$341,789	\$18,611	\$30,646	\$23,192	\$414,238	\$0
Charges to other City departments	0	0	183	0	183	147,339
Service to others	0	0	0	0	0	25,235
Intergovernmental	0	0	494	0	494	0
Other	10,615	4,525	278	548	15,966	2,632
Total operating revenues	<u>352,404</u>	<u>23,136</u>	<u>31,601</u>	<u>23,740</u>	<u>430,881</u>	<u>175,206</u>
Operating expenses:						
Personal Services	97,523	8,864	9,834	19,068	135,289	58,632
Supplies and materials	66,945	7,821	2,899	643	78,308	16,721
Contractual and other services	65,477	25,547	15,415	5,826	112,265	119,110
Reimbursement	0	0	(620)	(1,486)	(2,106)	0
Depreciation/amortization	64,641	11,823	11,547	166	88,177	15,582
Total operating expenses	<u>294,586</u>	<u>54,055</u>	<u>39,075</u>	<u>24,217</u>	<u>411,933</u>	<u>210,045</u>
Operating income (loss)	<u>57,818</u>	<u>(30,919)</u>	<u>(7,474)</u>	<u>(477)</u>	<u>18,948</u>	<u>(34,839)</u>
Nonoperating revenues (expenses):						
Investment income	6,972	1,580	1,146	166	9,864	643
Alcohol beverage tax	0	6,255	0	0	6,255	0
Motor vehicle rental tax	0	3,325	0	0	3,325	0
Hotel occupancy tax	0	37,525	0	0	37,525	0
Interest on revenue bonds and notes	(47,330)	(23,431)	(1,157)	0	(71,918)	0
Other Interest	(506)	0	0	0	(506)	0
Gain (loss) on property disposals	1,184	0	(1,267)	0	(83)	262
Total nonoperating revenues (expenses)	<u>(39,680)</u>	<u>25,254</u>	<u>(1,278)</u>	<u>166</u>	<u>(15,538)</u>	<u>905</u>
Income (loss) before operating transfers and contributions	<u>18,138</u>	<u>(5,665)</u>	<u>(8,752)</u>	<u>(311)</u>	<u>3,410</u>	<u>(33,934)</u>
Capital contributions	17,489	-	59,544	35	77,068	7,078
Transfers in	504	245	0	0	749	38
Transfers out	0	(3,563)	(46)	(916)	(4,525)	(6,562)
	<u>17,993</u>	<u>(3,318)</u>	<u>59,498</u>	<u>(881)</u>	<u>73,292</u>	<u>554</u>
Change in net assets	<u>36,131</u>	<u>(8,983)</u>	<u>50,746</u>	<u>(1,192)</u>	<u>76,702</u>	<u>(33,380)</u>
Total net assets, beginning of year	<u>1,565,161</u>	<u>387,186</u>	<u>321,137</u>	<u>7,625</u>	<u>2,281,109</u>	<u>3,084</u>
Total net assets, end of year	<u>\$1,601,292</u>	<u>\$378,203</u>	<u>\$371,883</u>	<u>\$6,433</u>	<u>\$2,357,811</u>	<u>(\$30,296)</u>

See accompanying notes to the basic financial statements



CITY OF DALLAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2004
(in thousands)

	Business-type Activities Enterprise Funds		
	Dallas Water Utilities	Convention Center	Airport Revenue
Cash flows from operating activities:			
Cash received from customers	\$349,471	\$24,160	\$31,702
Cash payments to suppliers for goods and services	(68,420)	(7,839)	(2,957)
Cash payments to employees for services	(70,497)	(6,925)	(7,369)
Cash payments for contractual services	(65,577)	(25,498)	(17,203)
Cash refunds and reimbursements	0	0	620
Other operating cash receipts	1,118	89	1,866
Net cash provided (used) in operating activities	<u>146,095</u>	<u>(16,013)</u>	<u>6,659</u>
Cash flows from non capital financing activities:			
Alcohol beverage tax	0	6,255	0
Motor vehicle tax	0	3,325	0
Hotel occupancy tax	0	37,525	0
Transfers from other funds	504	245	0
Transfers to other funds	0	(3,563)	(46)
Net cash provided (used) in non capital financing activities	<u>504</u>	<u>43,787</u>	<u>(46)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(215,673)	(3,735)	(15,673)
Proceeds from sale of capital assets	1,041	0	0
Proceeds from sale of revenue bonds	164,000	0	0
Principal paid on revenue and general obligation bond maturities	(50,915)	(9,979)	(5,534)
Interest paid on revenue bonds	(44,281)	(23,496)	(1,291)
Proceeds from sale of commercial paper notes	162,316	0	0
Retirement of commercial paper notes	(123,037)	0	0
Interest paid other	(506)	0	0
Construction loan from other City fund	(352)	0	0
Capital contribution	0	0	1,034
Loans to other city funds	(679)	0	0
Principal paid on water supply and wastewater treatment obligation	(11,512)	0	0
Interest paid on water supply and wastewater treatment obligation	(934)	0	0
Increase in customer and developer advances	275	0	0
Net cash used for capital and related financing activities	<u>(120,257)</u>	<u>(37,210)</u>	<u>(21,464)</u>
Cash flows from investing activities:			
Purchase from investments	19,060	(4,869)	0
Maturity of investments	(23,808)	5,014	0
Investment income	6,633	1,538	1,106
Net cash provided by investing activities	<u>1,885</u>	<u>1,683</u>	<u>1,106</u>
Net increase (decrease) in cash and cash equivalents	28,227	(7,753)	(13,745)
Cash and cash equivalents, beginning of year	<u>358,700</u>	<u>68,325</u>	<u>66,538</u>
Cash and cash equivalents, end of year	<u>\$386,927</u>	<u>\$60,572</u>	<u>\$52,793</u>

See accompanying notes to basic financial statements

Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
\$23,601	\$428,934	\$174,847
(641)	(79,857)	(14,736)
(14,006)	(98,797)	(58,075)
(5,779)	(114,057)	(116,599)
1,486	2,106	0
456	3,529	7,069
<u>5,117</u>	<u>141,858</u>	<u>(7,494)</u>
0	6,255	0
0	3,325	0
0	37,525	0
0	749	38
(916)	(4,525)	(6,562)
<u>(916)</u>	<u>43,329</u>	<u>(6,524)</u>
(195)	(235,276)	(931)
0	1,041	831
0	164,000	0
0	(66,428)	0
0	(69,068)	0
0	162,316	0
0	(123,037)	0
0	(506)	0
0	(352)	0
0	1,034	0
0	(679)	0
0	(11,512)	0
0	(934)	0
0	275	0
<u>(195)</u>	<u>(179,126)</u>	<u>(100)</u>
0	14,191	0
0	(18,794)	0
155	9,432	643
<u>155</u>	<u>4,829</u>	<u>643</u>
4,161	10,890	(13,475)
7,947	501,510	33,933
<u>\$12,108</u>	<u>\$512,400</u>	<u>\$20,458</u>

CITY OF DALLAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (continued)
Year Ended September 30, 2004
(in thousands)

	Business-type Activities Enterprise Funds		
	Dallas Water Utilities	Convention Center	Airport Revenue
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$57,818</u>	<u>(\$30,919)</u>	<u>(\$7,474)</u>
Adjustments not affecting cash:			
Depreciation	64,641	11,823	11,547
Change in assets and liabilities:			
(Increase) decrease in accounts and other receivables	(2,651)	116	(1,644)
Increase customer assessments receivable	(104)	0	0
(Increase) decrease in inventories	38	12	(22)
(Increase) decrease in other assets	(128)	1,296	0
Decrease in due from other governments	0	0	64
Increase in due from other funds	0	0	(2,324)
Increase in due to other governments	0	3	0
Increase (decrease) in accounts and contracts payable	(1,513)	22	(523)
Increase in accrued compensation	528	108	70
Increase in accrued vacation and sick	900	0	0
Increase (decrease) in allowance for doubtful accounts	(282)	0	1,879
Decrease in deferred revenue	0	(200)	(134)
Decrease in customer deposits	0	(188)	0
Increase in other liabilities	26,848	1,914	5,220
Total adjustments	<u>88,277</u>	<u>14,906</u>	<u>14,133</u>
Net cash provided by (used) in operating activities:	<u>\$146,095</u>	<u>(\$16,013)</u>	<u>\$6,659</u>
Noncash investing, capital, and financing activities:			
Change in fair value of investments	(\$1,866)	(\$606)	(\$326)
Capital contributions	17,489	0	58,510
Total noncash investing, capital, and financing activities	<u>\$15,623</u>	<u>(\$606)</u>	<u>\$58,184</u>

See accompanying notes to basic financial statements

Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
(\$477)	\$18,948	(\$34,839)
166	88,177	15,581
(166)	(4,345)	(20)
0	(104)	0
0	28	(339)
5	1,173	(337)
0	64	0
0	(2,324)	0
0	3	0
47	(1,967)	1,656
403	1,109	558
0	900	0
25	1,622	0
0	(334)	0
(3)	(191)	0
5,117	39,099	10,246
5,594	122,910	27,345
<u>\$5,117</u>	<u>\$141,858</u>	<u>(\$7,494)</u>
(\$81)	(\$2,879)	\$0
0	75,999	7,078
<u>(\$81)</u>	<u>\$73,120</u>	<u>\$7,078</u>

CITY OF DALLAS, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
As of September 30, 2004
(in thousands)

	Agency Funds	Pension Trust Funds
	<u> </u>	<u> </u>
Assets		
Pooled cash and cash equivalents	\$12,822	\$0
Cash and cash equivalents	0	545,738
Receivables:		
Accounts	46	47,471
Forward current contracts	0	87,915
Accrued Interest	0	18,581
Domestic equities	0	860,215
U.S. and foreign government securities	0	332,371
Domestic corporate fixed income	0	357,621
International fixed income	0	274,835
International equities and fixed income	0	919,341
Commingled index funds	0	952,495
Venture capital(real estate)	0	324,063
Certificate of Deposit	2	0
Total assets	<u>12,870</u>	<u>4,720,646</u>
Liabilities		
Accounts payable	0	3,431
Payable for securities purchased	0	93,276
Forward current contracts	0	87,320
Securities lending obligation	0	421,449
Other	12,870	5,412
Total liabilities	<u>12,870</u>	<u>610,888</u>
Net assets		
Held in trust for pension benefits	<u>0</u>	<u>4,109,758</u>
Total net assets	<u>\$0</u>	<u>\$4,109,758</u>

See accompanying notes to basic financial statements.

CITY OF DALLAS, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the year ended September 30, 2004
(in thousands)

	<u>Pension Trust Funds</u>
ADDITIONS:	
Contributions:	
Employer	\$114,052
Employee	<u>36,902</u>
Total contributions	150,954
Net investment income:	
Dividends	33,785
Interest	54,688
Real estate income	14,397
Net appreciation in fair value of investments	854,797
Securities lending income	4,474
Less investment expenses:	
Investment management fees	(5,147)
Custody fees	(125)
Consultant fees	(230)
Securities lending borrower rebates	(3,068)
Securities lending management fees	<u>(200)</u>
Total investment expenses	(8,770)
Net investment income	953,371
Other income	<u>1,017</u>
Total increases	<u>1,105,342</u>
DEDUCTIONS:	
Benefit payments	205,612
Refund of contributions	3,239
Administrative expenses	<u>15,853</u>
Total deductions	224,704
Net increase in net assets available for benefits	880,638
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>3,229,120</u>
End of year	<u><u>\$4,109,758</u></u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

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CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies

A. General

The City of Dallas, Texas ("the City") is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under the Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in the enterprise funds and the business-type activities to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below:

B. Financial Statement Presentation

The City's basic financial statements are comprised of five components: 1) management and discussion analysis 2) government-wide financial statements, 3) fund financial statements 4) notes to the financial statements and 5) required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – Prepared using the economic resources measurement focus and accrual basis of accounting. Government-wide financial statements do not provide information by individual fund or fund types, but distinguish between the City's primary government and its discretely presented component units and between governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Neither the fiduciary funds nor component units that are fiduciary in nature are included in the Government-wide financial statements.

Additionally, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure. In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by GASB Statement No. 34.

Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. The City reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net assets of the City are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Long-term liabilities are reported in two categories – the amount due in one year and the amount due in more than one year.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

B. Financial Statement Presentation (continued)

Statement of Activities – The government-wide statement of activities reports net (expense) revenue in a format that focuses on the cost of each of the business-type activities of the City and for each of the City's governmental activities. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). General revenues (including all taxes), investment earnings, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers between governmental and business-type activities are reported separately after the total net expenses of the government's functions, ultimately arriving at the change in net assets for the period. Program revenues are segregated into three categories: 1) charges for services; 2) operating grants and contributions; and 3) capital grants and contributions.

Budgetary Comparison Statement – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons. Under the reporting model, the City will continue to provide budgetary comparison information for the General Fund within the basic financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

C. Reporting Entity

The basic financial statements present the City and its component units and include all activities, organizations and functions for which the City is considered to be financially accountable. The criteria considered in determining activities to be reported within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

The City's municipal services, which include public safety (police and fire), streets, sanitation, health and human services, culture and recreation, public improvements, planning and zoning, tax increment financing districts and general administrative services, are included in the accompanying basic financial statements.

In addition, the City owns and operates certain enterprise funds including water and wastewater utilities, convention and event services, airport and other enterprise activities that are also included in the accompanying basic financial statements.

Pension Trust Funds (Blended Component Units)

The Pension Trust Funds are blended component units and have a December 31 year-end. Blended component units are included as part of the primary government because they meet the above criteria as well as serve or benefit the City exclusively.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

C. Reporting Entity (continued)

Pension Trust Funds (Blended Component Units)

The City contributes on behalf of its employees, to three defined benefit pension plans administered by two legally separate entities--the Employees' Retirement Fund and the Police and Fire Pension System.

The primary functions of the pension entities are investment and benefit management activities. Each Board has contracted with various investment managers and banks for management of the portfolios of the plans. The two entities are classified as blended component units of the City because they benefit the City's employees, retirees and their beneficiaries exclusively.

Discretely Presented Component Units - The following legally separate entities are reported as discretely presented component units of the City because the City appoints a voting majority of the boards, approves budgets and maintains the ability to impose its will on the entities.

- Housing Finance Corporation - organized to issue tax-exempt mortgage revenue bonds to encourage low to moderate-income citizens opportunities for single-family residential home ownership.
- Housing Acquisition and Development Corporation - organized solely and exclusively for the public purpose of providing safe, affordable housing facilities for low and moderate income persons.

Fund financial statements are available for Housing Acquisition and Development Corporation and the Housing Finance Corporation on pages 104-105.

Related Organization

City officials are also responsible for appointing members to the boards of the following organizations, but the City's accountability for these organizations does not extend beyond making appointments.

The Dallas/Fort Worth International Airport (DFW Airport) is jointly governed by the cities of Dallas and Fort Worth. DFW Airport is governed by an 11-member board (Board) comprised of seven members representing the City of Dallas and four members representing the City of Fort Worth. Members of the board are appointed by the respective City Councils.

The Dallas Housing Authority (Authority) is an independent organization, which has a scope of public service within the geographic boundaries of the City. Under Texas State Statutes, the responsibility for the administration and operations of the Authority is vested solely with the Authority's Board of Commissioners. The Authority is dependent on Federal funds from the Department of Housing and Urban Development and, as a result, is not financially dependent on the City. In addition, the City is not responsible for any deficits incurred and has no fiscal management control.

The Dallas Area Rapid Transit (DART) is a regional transportation authority created pursuant to Article 1118y of the State Statutes and is controlled by a 15-member board. The Dallas City Council appoints seven members and participating suburban City Councils appoint eight board members. Its purpose is to provide transportation services in the DART service area. The voters in the Dart service area approved a one percent sales tax to fund the authority annually.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

D. Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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 its legally separate component units, which are presented discretely.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. 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 operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate fund level 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 individual enterprise funds are reported as separate columns in the fund financial statements.

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues received within 45 days of year-end, in accordance with the City's accounting policy, which is not materially different than 60 days as allowed under GAAP.

Revenues susceptible to accrual are ad valorem taxes, sales tax, sanitation collection fees, disposal fees, franchise fees and interest. In applying the susceptible to accrual concept to Federal and State grants, revenues are recognized when applicable eligibility requirements, including time requirements, are met. The grant availability period is considered to be one year. All other revenue items are considered to be measurable and available only when the City receives the cash as the resulting receivables are deemed immaterial.

Expenditures generally are recorded when liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, claims and judgments, and landfill closure and post-closure care costs are recorded only when matured and payment is due shortly after year-end.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

The City reports the following major proprietary funds:

The Dallas Water Utilities Fund accounts for water and wastewater services for Dallas, area customer cities and governmental entities. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance, and related debt service.

The Convention Center Fund accounts for convention and event services for the Dallas Convention Center. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance, and related debt service.

The Airport Revenue Fund accounts for airport services and administration of Dallas Love Field and Executive Airport. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance, and related debt service.

Additionally, the City reports the following funds:

The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of those major capital facilities which are not financed by Enterprise Funds, Internal Service Funds, and Trust Funds.

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

The Internal Service Funds are used to centralize certain services and then allocate the cost of those services on a cost-reimbursement basis.

The Pension Trust Funds account for the activities of the City's three contributory defined benefit pension plans namely: Employees' Retirement System; Police and Fire Pension System; and Police and Fire Supplemental Pension Fund.

The Agency Funds are used to account for assets held by the City, as an agent for individuals, private organizations, other governments and/or other funds for assets held by the City, in a trustee capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The principal operating revenues of the City's enterprise funds are charges to customers for sales and services while operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. Unbilled water and wastewater utility service receivables are recorded in the Dallas Water Utilities fund under "Accounts Receivable" at year-end. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with the exception of the Pension Trust Funds (which consider short-term investments as regular investments). Investment income on the pooled investments is prorated monthly based upon the average daily cash balance in each fund.

The City's Investment Policy requires investments in accordance with applicable State law. However, the Policy does not permit investment of City funds in all eligible investments permitted by State law. In accordance with this Policy, the City may invest in direct or guaranteed obligations of the U.S. Treasury, certain U.S. agencies and instrumentalities, and the State of Texas or its agencies and instrumentalities with a credit rating no less than A; fully collateralized certificates of deposit and repurchase agreements; no-load money market mutual funds and local government investment pools with credit ratings no less than AAA. The City is precluded from investing in bankers' acceptances, commercial paper, collateralized mortgage obligations, reverse repurchase agreements, and obligations of cities, counties and political subdivisions of other states, all of which are authorized by State law.

Investments in certificates of deposit, U.S. Government obligations and other investments are recorded at fair value. Pension investments are recorded at fair value based on quoted market values, where available, as of the trade date.

The amounts recorded in the Pension Trust Funds for real estate funds and venture capital funds represent estimated fair values based upon appraised values or other comparable methods.

G. Inventories

Inventory is valued at average cost. Inventory for all funds generally consists of expendable supplies and automotive parts held for consumption and are recorded as expenditures (or expense) when consumed. Since the City uses the consumption method of accounting for inventories and has no minimum quantity requirements, no reserve has been established within the fund balances of the Governmental Fund types.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items.

I. Restricted Assets

Proceeds of Enterprise Fund revenue bonds and commercial paper notes, as well as resources set aside for revenue bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable covenants. The capital project funds record proceeds of revenue debt issuances restricted for construction. The current Debt Service Funds are used to segregate resources accumulated for debt service payments over the next twelve months.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

I. Restricted Assets (continued)

The revenue bond future Debt Service Funds are used to report resources set aside to fulfill revenue bond debt reserve requirements. Other restricted assets include funds restricted for construction from revenue sources, construction receivables, contractual obligation debt service funds, customer deposits, and funds held for arbitrage rebate.

J. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (example include streets and bridges) are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Generally, assets with an individual cost of at least \$5 and an estimated useful life of more than one year are capitalized. Purchased or constructed capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Assets acquired by donation are recorded at estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The business-type activities and proprietary funds capitalize interest costs during construction. Interest capitalized during the year ended September 30, 2004 was \$8.2 million.

Depreciation, which includes amortization of assets under capital leases, is computed using the straight-line method over the estimated useful or service lives of the related assets.

The estimated useful lives of the primary government's capital assets are as follows:

	Useful Life	
	Governmental Activities	Business-type Activities
Infrastructure.....	10-50 years	50 -100 years
Reservoirs and water rights.....	-	50 years
Buildings.....	10-50 years	10-50 years
Improvements other than buildings.....	10-50 years	10-100 years
Equipment.....	3-20 years	3-25 years
Utility property.....	-	33-75 years

The City has certain scientific equipment and zoo animals that are not capitalized or depreciated. These assets are maintained for public exhibition, education or research and are being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other items for collection.

K. Compensated Absences

The City's employees earn vacation and sick leave which may be used or accumulated up to certain amounts. Unused vacation is paid upon death, retirement or termination. Unused sick leave is reduced to a specified limit when paid upon retirement, certain terminations, or death.

In accordance with the criteria established in the Codification of Governmental Accounting Standards, Section C60, "Compensated Absences," a liability is recorded for vacation leave earned by employees attributable to past service and sick leave earned by employees attributable to past service only to the extent it is probable that such leave will result in termination pay.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

K. Compensated Absences (continued)

In addition, a liability has been recorded for certain salary related payments associated with the payment of accrued vacation and sick leave.

In the government-wide and proprietary fund statement of net assets all compensated absence liabilities incurred are recorded as liabilities. However, a liability is recorded in the governmental funds balance sheet only if they have matured as a result of employee resignations, retirements, or terminations.

L. Risk Management

The City is self-funded for workers' compensation, employee health insurance, most property damage and the majority of tort liability exposures. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. Indemnity and insurance protection is also required for all City contractors, vendors, and lessees and permit holders. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The recorded estimated liability for claims and judgments includes a provision for Incurred But Not Reported (IBNR) liabilities for workers' compensation, tort cases, and liabilities for allocated expenses.

M. Deferred Revenue

Deferred revenue in the governmental funds occurs when potential revenue does not meet both the "measurable" and "available" criteria for recognition. Deferred revenue also occurs when the City receives resources before it has a legal claim to them. In subsequent periods, when both the revenue criteria are met, or when the City has a legal claim to the resources, the deferred revenue is removed from the balance sheet/statement of net assets and revenue is recognized.

N. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund financial Statements of Net Assets.

General obligation bonds are issued to fund capital projects of both the general government and certain Proprietary Funds and are to be repaid from tax revenues of the City.

Accreted interest on capital appreciation bonds is reflected as interest expense in the governmental activities Statement of Activities and as an addition to general obligations payable in the Statement of Net Assets.

O. Bond Premiums, Discounts and Issuance Costs

In the government- wide financial statements and proprietary fund financial statements, bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs, are reported as deferred charges and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs in the current period.

The face amount of debt issued is reflected as other financing sources. Premiums are reported as other financing sources while discounts are reported as other financing uses.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

O. Bond Premiums, Discounts and Issuance Costs (continued)

Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

P. Property Taxes

The City's property tax is levied each October 1 on the assessed value as of the previous January 1 for all real and income-producing (or business personal) property. Appraised values are established by the Dallas Central Appraisal District equal to 100 percent of appraised market value as required under the State Property Tax Code. The value of real property within the Appraisal District must be reviewed every three years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. The City establishes tax rates on property within its jurisdiction. If the adopted tax rate, excluding tax rates for bonds and other contractual obligations, exceeds the effective tax rate by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate increase to no more than 8 percent above the effective tax rate. Property taxes attach as an enforceable lien on property as of January 1 of the subsequent year.

Taxes are due October 1. Full payment can be made prior to the following January 31 to avoid penalty and interest charges. Current tax collections for the year ended September 30, 2004, were 96.46 percent of the tax levy. Property taxes are recorded as revenue when they are measurable and available. The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per one hundred dollars of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. Therefore, the City could have generated a tax margin (additional taxes not presently generated) of \$1.2 billion in 2004.

Q. Federal and State Grants and Entitlements

Grants and entitlements received for purposes normally financed through the general government are accounted for within the Special Revenue Funds. Community Development Block Grants are the more significant grants so classified. Grants and similar items are recognized as revenue as soon as all applicable eligibility requirements have been met.

Current revenues received for operating purposes of enterprise funds for either operations or capital expenditures are recognized in the applicable enterprise fund.

R. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund level balance sheets. Short-term and long-term interfund loans are classified as notes receivable or payable from other funds.

S. Transactions Between Funds

Transactions between funds, which would have been treated as revenues, expenditures, or expenses if they involved organizations external to the government unit, are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expenses in the fund reimbursed.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 1. Summary of Significant Accounting Policies (continued)

T. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants select investment options. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Deferred compensation investments from this plan are not reported in the City's financial statements.

Investments are managed by the plan trustees under one of various pools of investment options offered by Fidelity Investments, at the direction of the covered employee.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

U. Fund Equity/Net Assets

In the government-wide financial statements, the net assets are reported in three components (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, unless a separate fund is utilized for only that purpose. The use of the separate fund itself communicates the legal segregation for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

V. Statement of Cash Flows

For purposes of the statement of cash flows, the City considers pooled cash and investments and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, excluding the Pension Trust Funds which consider all highly liquid debt instruments to be investments.

W. Use of Estimates

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

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 2. Stewardship, Compliance and Accountability

A. Legal Compliance – Budgets

The City Council adheres to the following procedures in establishing the budgets reflected in the accompanying combined financial statements.

- 1) By the fifteenth day of August each year, the City Manager is required to submit to the City Council a proposed budget for the fiscal year beginning the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayers' comments.
- 3) Prior to October 1, the budget is legally enacted by the City Council through passage of an ordinance.
- 4) The City Manager is authorized to transfer budgeted amounts between accounts within any department; however, any revisions that alter the total expenditures of any department generally must be approved by the City Council. The legal level of budgetary control is the department level. A supplemental budgetary appropriation was necessary during the year for the General Fund budget. It was amended by Council resolution from \$810.5 million to \$813.3 million.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund and Debt Service Fund. Formal budgetary integration is employed as a management control device in the Capital Project Funds for the life of the projects.
- 6) Annual budgets are legally adopted for the General Fund, Debt Service Fund and Proprietary Funds. Certain differences exist between the basis of accounting used for budgetary purposes and that used for financial reporting in accordance with generally accepted accounting principles. Budgets for the Capital Project Funds are normally established pursuant to the terms of the related bond ordinances on a project basis.

B. Budgets and Budgetary Basis of Accounting

The City prepares its annual appropriated General Fund, Debt Service Fund and Proprietary operating funds' budgets on the budget basis which differs from GAAP basis. The budget and all transactions of the General Fund are presented in accordance with the City's budget basis in the Statement of Revenues, Expenditures and Changes in Fund Balances to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis are attributable to the elimination of expenditures budgeted on a non-annual basis and the fact that encumbrances are recorded as the equivalent of expenditures (budget) rather than a reservation of fund balance (GAAP) in the Governmental Funds. Adjustments necessary to convert the excess of revenues and other financing sources over expenditures and other uses on the budget basis to a GAAP basis for the General Fund are provided below.

Excess of revenues and other financing sources over expenditures and other uses--budget basis	\$4,972
Actual expenditures budgeted on non-annual budgets	(4,433)
Decrease in fund balances designated for future authorized expenditures	(46)
Tax increment transfer eliminated under GAAP	3,634
Increase in encumbrances	<u>(1,682)</u>
Excess of revenues and other financing sources over expenditures and other uses--GAAP basis	<u>\$2,445</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 2. Stewardship, Compliance and Accountability (continued)

B. Budgets and Budgetary Basis of Accounting (continued)

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in the governmental funds. For budgetary purposes, appropriations lapse at fiscal year end except for that portion related to encumbered amounts. For Governmental Funds, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities for GAAP purposes since the goods and services have not been received and the commitments will be honored during the subsequent year.

Certain individual funds within the Special Revenue Funds reflect reserves for encumbrances and corresponding deficits in undesignated fund balances. In accordance with City policy, these reserves are recorded for contractual obligations and other commitments entered into by the City and for which revenues will not be recognized until the related expenditures are made.

Encumbrances outstanding at year-end are carried forward to the new fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, the accompanying financial statements present comparisons of actual results to budget of Governmental Funds on the budget basis of accounting.

General Fund budgetary expenditures over appropriations are described in the following functions: General Government exceeded their budget by \$1 million primarily due to the unexpected increase of employee health cost. Public Safety exceeded their budget by \$5 million primarily due to civilian overtime, uniform overtime, termination payments, expenses for computer leases and unexpected increase of employee health cost in the police and fire department. Streets, Street Lighting, Sanitation and Code Enforcement exceeded their budget by \$3.2 million primarily due to repair and maintenance of machinery, fleet charges for vehicles, unexpected repair damages due to flooding at the McCommas Bluff Landfill and an unexpected increase of employee health cost. Culture and Recreation exceeded their budget by \$1.1 million due to an unexpected increase in electrical costs and the increase of employee health costs.

C. Fund Balances- Reserves, Designations and Deficit

Reserves of fund balances represent those amounts which are not available for appropriation in future periods or which are legally segregated for specific future uses. Fund designations indicate tentative plans for utilization of financial resources. The City's designated fund balance in the General Fund of \$42.2 million is as follows:

9-1-1 Program	\$399
Cultural Programs	1,958
Risk reserve	1,250
Future expenditures	485
Emergencies	18,763
Contingencies	3,825
TU rate case reserve	<u>15,485</u>
Total	<u>\$42,165</u>

The Risk Fund has a deficit net assets balance of \$99.9 million associated with the City's self-insured workers' compensation, auto, and general liability activities. The City will have to address this deficit during future budget development over the next few years and implement methods to fund this deficit over a period of time. Stormwater Operations had a deficit of \$645 thousand which will continue to be recovered through increased fees.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 3. Cash, Deposits and Investments

The City maintains a cash and investment pool available for use by all City funds. Each fund's portion of this pool is displayed on the balance sheet as "Pooled cash and cash equivalents." The City treats pooled investments and short-term non-pooled investments as cash equivalents. Long-term non-pooled investments are reported as "Other investments, at fair value" in the appropriate funds. In addition, several City funds have investments, which are separately held. A fund may overdraw its account in the pool and these overdrafts are reported as liabilities, (due to/due from other funds) on the balance sheet.

A summary of pooled cash and other investments for all City funds including \$12.8 million held in agency funds at September 30, 2004, is presented below:

	Cash and Investments With City Treasurer	Other Cash and Investments Pension Trust	Total
Pooled Cash and Investments	\$686,914	\$0	\$686,914
Cash and cash equivalents	0	545,738	545,738
Other Investments	31,157	4,020,943	4,052,100
Restricted cash and investments	<u>501,406</u>	<u>0</u>	<u>501,406</u>
Total	<u>\$1,219,477</u>	<u>\$4,566,681</u>	<u>\$5,786,158</u>

A summary of the carrying amount of cash on hand, deposits and investments at September 30, 2004, is as follows:

	Cash and Pooled Investments With City Treasurer	Other Cash and Investments	Components Unit Cash	Total
Deposits	\$(2,395)	\$545,738	\$767	\$544,110
Investments	<u>1,221,872</u>	<u>4,020,943</u>	<u>0</u>	<u>5,242,815</u>
Total	<u>\$1,219,477</u>	<u>\$4,566,681</u>	<u>\$767</u>	<u>\$5,786,925</u>

At September 30, 2004, the investments held in the City Treasury's General and Investment Pool Programs are as follows:

Types of Investments	Category 1	Total
Categorized Investments		
Treasury Bonds	\$8,905	\$8,905
Treasury Strip	23,768	23,768
Treasury Bills	3,561	3,561
Federal Farm Credit Bank Note	126,589	126,589
Federal Farm Credit Bank Discount Note	10,000	10,000
Federal Home Loan Bank Notes	255,733	255,733
Federal Home Loan Mortgage Corporation Discount Notes	19,894	19,894
Federal Home Loan Mortgage Corporation Notes	168,473	168,473
Federal National Mortgage Discount Notes	47,760	47,760
Federal National Mortgage Notes	102,832	102,832
United States Treasury Notes	<u>173,810</u>	<u>173,810</u>
Total Categorized Investments	<u>\$941,325</u>	<u>\$941,325</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 3. Cash, Deposits and Investments (continued)

Types of Investments	
Investments Not Categorized	
Trust Funds	\$8,183
Agency Funds	2
Short-term Municipal Obligation	116,399
AIM Liquid Assets	57,767
TexPool	97,266
One Group Government Money Market Fund	930
Total Investments Not Categorized	<u>\$280,547</u>
Total General and Investment	
Pool Programs in City Treasury	<u>\$1,221,872</u>

At December 31, 2003, the investments held in the City's Pension Trust Funds are as follows:

Types of Investments	Category 1	Total
Categorized Investments:		
Employees' Retirement Fund (at quoted market value)		
Domestic Equities	\$368,256	\$368,256
U.S. and Foreign Government Securities	133,229	133,229
Domestic corporate fixed income	293,715	293,715
International Equities	372,653	372,653
Commingled Index Funds	495,721	495,721
Dallas Police and Fire Pension System		
Commingled Index Funds	439,886	439,886
Domestic corporate fixed-income	197,080	197,080
International Fixed-Income	101,452	101,452
U.S. Government and Agency Securities	38,347	38,347
Domestic Equities	334,216	334,216
International equities	489,489	489,489
Police and Fire Supplemental Fund		
Bank Commingled Trust Funds	16,888	16,888
Total Categorized Investments	<u>\$3,280,932</u>	<u>\$3,280,932</u>

Types of Investments	
Investments Not Categorized:	
Employees' Retirement Fund	
U.S. Government and Agency Securities	\$52,560
Domestic corporate fixed-income	63,906
Domestic equities	95,803
International equities	21,019
Venture capital	354
Dallas Police and Fire Pension System	
U.S. Government and Agency Securities	2,820
Domestic corporate fixed-income	77,755
Domestic equities	61,940
International equities and fixed-income	40,145
At appraised value (real estate)	<u>323,709</u>
Total Not Categorized	<u>740,011</u>
Total investments in City's Pension Trust funds	<u>\$4,020,943</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 3. Cash, Deposits and Investments (continued)

Investments of the City, other than for 2a7-like pools, are valued based upon quotes obtained from Interactive Data Corporation. Investments in 2a7-like pools are valued based upon the value of pool shares. No investments are reported at amortized cost. The City invests in one 2a7 - like pool; the Texas Local Government Investment Pool (TexPool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. ch. 791 and the Texas Government Code Ann. ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. ch. 2256.

Texas statutes and City bond ordinances authorize operating, capital projects, bond reserve and trust monies to be deposited in demand deposits, time deposits, or certificates of deposit. Texas statutes require all uninsured collected deposits to be fully collateralized.

The City's deposits at year-end are shown below. At year end, the following deposits and bank balance were covered by federal depository insurance or by collateral held by the City's third-party agents pledged in the City's name which is category 1 as defined in the Codification of Governmental Accounting Standards, Section C20, "Cash Deposits with Financial Institutions." These amounts exclude petty cash accounts of \$283. The fair value of these deposits approximates their costs.

The collateral pledged to the City is held in a joint safekeeping account at the Federal Home Loan Bank.

Primary Government	Interest Rates (%)	Carrying Value	Bank Balance
Pooled Demand Deposits		\$(2,395)	\$2,797
Cash and cash equivalents-Pension Trust Funds	1.084	0	30,957
Total		<u>\$(2,395)</u>	<u>\$33,754</u>

Note 4. Receivables

Receivables at September 30, 2004 for the government's individual major and nonmajor governmental and internal service funds including the applicable allowances for uncollectible accounts, consist of the following:

	General	Debt service	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Receivables:					
Property taxes	\$27,732	\$11,165	\$0	\$0	\$38,897
Sales taxes	34,202	0	0	0	34,202
Accounts	31,566	0	3,885	12	35,463
Notes	1	0	11,720	0	11,721
Due from other governments	0	0	22,302	0	22,302
Accrued interest	160	4	832	18	1,014
Gross receivables	93,661	11,169	38,739	30	143,599
Less allowance for doubtful accounts	<u>(34,332)</u>	<u>(8,559)</u>	<u>(1,162)</u>	<u>0</u>	<u>(44,053)</u>
Net total receivables	<u>\$59,329</u>	<u>\$2,610</u>	<u>\$37,577</u>	<u>\$30</u>	<u>\$99,546</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 4. Receivables (continued)

Receivables at September 30, 2004 for the primary government's individual major and nonmajor enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	Dallas Water Utilities	Convention Center	Airport Revenue	Nonmajor Enterprise Funds	Total Business Type Activities
Receivables:					
Accounts	\$44,551	\$7,569	\$2,025	\$1,478	\$55,623
Due from other governments	0	0	312	0	312
Accrued interest	<u>608</u>	<u>54</u>	<u>49</u>	<u>13</u>	<u>724</u>
Gross receivables	45,159	7,623	2,386	1,491	56,659
Less allowance for doubtful accounts	<u>(3,373)</u>	<u>0</u>	<u>(1,879)</u>	<u>(29)</u>	<u>(5,281)</u>
Net total receivables	<u>\$41,786</u>	<u>\$7,623</u>	<u>\$507</u>	<u>\$1,462</u>	<u>\$51,378</u>

Intergovernmental revenues and related receivables arise through funding received from federal and state grants. These revenues and receivables are earned through expenditures of monies for grant purposes.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2004, the various components of deferred revenue reported in the governmental funds were as follows:

Taxes	\$6,771
Accounts	38,108
Intergovernmental	<u>8,117</u>
Total Deferred Revenue For Governmental Funds	<u>\$52,996</u>

Note 5. Restricted Assets

The primary government's business-type restricted assets of \$501,406 are composed of the following at September 30, 2004:

	Business-Type Activities
Cash and Investments:	
Pooled Cash and Cash Equivalents	\$302,620
Cash and Cash Equivalents	116,399
Other Investments	<u>82,387</u>
Total	<u>\$501,406</u>

For the business-type activities, the restricted amounts are for accumulated resources for debt service payments, a self-insurance reserve, deposits from service users, and retention guarantees from contractors.

Note 6. Joint Ventures

Dallas/Fort Worth International Airport

DFW Airport is owned jointly by the cities of Dallas and Fort Worth and operated by an 11-member board comprised of seven members from Dallas and four members from Fort Worth appointed by the respective City Councils.

Joint Revenue Bonds and Special Facility Revenue Bonds were issued to construct DFW Airport. Concurrent Bond Ordinances provide that the Board shall set rentals, rates, fees and charges such that they are sufficient to produce in each fiscal year gross revenues adequate to pay (a) the operation and maintenance expenses, (b) 1.25 times the amount required to be deposited into the Joint Revenue Bonds.

CITY OF DALLAS, TEXAS
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Note 6. Joint Ventures (continued)

Dallas/Fort Worth International Airport (continued)

Interest and Sinking Fund and (c) an amount equal to any other obligations payable from the revenues of DFW Airport. The Special Facility Revenue Bonds are payable from and secured by the net lease rentals derived from the special facilities.

The outstanding debt and related debt service are accounted for by the DFW Airport Board. The long-term portion of the Joint Revenue Bonds, the Special Facility Revenue Bonds, Facility Improvement Corporation Revenue Bonds and Public Facility Improvement Corporation Revenue Bonds at September 30, 2004 was \$4 billion which is net of \$16 million deferred loss on refunding.

The following summary financial information for Airport is as of September 30, 2004:

Total assets	\$5,805,179
Less, total liabilities	<u>(4,409,740)</u>
Total net assets	<u>\$1,395,439</u>
Operating revenues	\$316,467
Non-operating revenues	126,725
Less, operating expenses	(277,558)
Change in net assets	165,634
Net assets, beginning of year	<u>1,229,805</u>
Net assets, end of year	<u>\$1,395,439</u>

The Cities have executed covenants individually, by ordinance, to levy a maintenance tax, if necessary, to ensure DFW Airport will be efficiently operated and maintained. The amount of such tax is limited for each city in their respective ratios to the lesser of 5 cents per one hundred dollars of assessed valuation of the property in each city or the amount of the maintenance tax required.

The Board has entered into agreements with air carriers and other parties utilizing DFW Airport to provide for adjustments to rentals, fees and other charges which management believes precludes the need for a maintenance tax. To date, the Cities have levied no maintenance tax.

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CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 7. Capital Assets

Capital asset activity for the year ended September 30, 2004 is as follows:

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land	\$299,998	\$17,900	5	\$317,893
Artwork	48,677	201	176	48,702
Construction in Progress	<u>271,876</u>	<u>83,097</u>	<u>109,380</u>	<u>245,593</u>
Total capital assets, not being depreciated	<u>620,551</u>	<u>101,198</u>	<u>109,561</u>	<u>612,188</u>
Capital assets, being depreciated:				
Buildings	599,646	63,452	642	662,456
Improvements other than buildings	123,353	28,884	2,350	149,887
Equipment	365,182	24,808	16,404	373,586
Infrastructure	<u>1,273,489</u>	<u>23,313</u>	<u>10,941</u>	<u>1,285,861</u>
Total capital assets, being depreciated:	<u>2,361,670</u>	<u>140,457</u>	<u>30,337</u>	<u>2,471,790</u>
Less accumulated depreciation for:				
Buildings	(253,971)	(16,620)	3,491	(267,100)
Improvements other than buildings	(46,836)	(3,745)	772	(49,809)
Equipment	(251,541)	(32,388)	6,617	(277,312)
Infrastructure	<u>(498,557)</u>	<u>(19,371)</u>	<u>8,150</u>	<u>(509,778)</u>
Total accumulated depreciation	<u>(1,050,905)</u>	<u>(72,124)</u>	<u>19,030</u>	<u>(1,103,999)</u>
Total capital assets, being depreciated, net	<u>1,310,765</u>	<u>68,333</u>	<u>11,307</u>	<u>1,367,791</u>
Governmental activities capital assets, net	<u>\$1,931,316</u>	<u>\$169,531</u>	<u>\$120,868</u>	<u>\$1,979,979</u>

Depreciation expense charged to functions :

General government	11,967
Public safety	6,784
Streets, street lighting, sanitation, & code enforcement	1,690
Environmental & Health Services	315
Public works and transportation	23,329
Equipment & building services	15,159
Culture and recreation	11,995
Housing	55
Human Services	<u>830</u>
Total depreciation expense – governmental activities (includes \$15,581 of depreciation expense for the Internal Service Funds and \$56,543 for the governmental type assets)	<u>\$72,124</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(all \$ amounts in thousands unless otherwise noted)

Note 7. Capital Assets (continued)

	<u>Balance at Beginning Of Year</u>	<u>Additions</u>	<u>Transfers And Retirements</u>	<u>Balance at End Of Year</u>
<u>Total business-type activities:</u>				
Capital assets, not being depreciated:				
Land	\$213,822	\$182	\$263	\$213,741
Construction in Progress	<u>533,078</u>	<u>257,555</u>	<u>221,965</u>	<u>568,668</u>
Total capital assets, not being depreciated	<u>746,900</u>	<u>257,737</u>	<u>222,228</u>	<u>782,409</u>
Capital assets, being depreciated:				
Water rights	353,910	0	0	353,910
Buildings	1,020,209	260,647	3,741	1,277,115
Improvements other than buildings	168,274	4,975	0	173,249
Infrastructure	412,847	21	0	412,868
Equipment	383,267	4,575	3,295	384,547
Utility property	<u>1,587,029</u>	<u>19,452</u>	<u>39</u>	<u>1,606,442</u>
Total capital assets, being depreciated	<u>\$3,925,536</u>	<u>\$289,670</u>	<u>\$7,075</u>	<u>\$4,208,131</u>
Less accumulated depreciation for:				
Water wastewater rights	(70,097)	(3,546)	0	(73,643)
Buildings	(292,503)	(25,697)	1,911	(316,289)
Improvements other than buildings	(50,339)	(3,763)	781	(53,321)
Infrastructure	(134,274)	(9,427)	41	(143,660)
Equipment	(184,659)	(19,035)	2,660	(201,034)
Utility property	<u>(473,815)</u>	<u>(26,709)</u>	<u>(4,740)</u>	<u>(505,264)</u>
Total accumulated depreciation	<u>(1,205,687)</u>	<u>(88,177)</u>	<u>653</u>	<u>(1,293,211)</u>
Total capital assets, being depreciated, net	<u>2,719,849</u>	<u>201,493</u>	<u>6,422</u>	<u>2,914,920</u>
Business-type activities capital assets, net	<u>\$3,466,749</u>	<u>\$459,230</u>	<u>\$228,650</u>	<u>\$3,697,329</u>

Business-type activities depreciation expense by function:

Dallas Water Utilities	\$64,641
Convention Center	11,823
Aviation	11,547
Non-major	<u>166</u>
Total depreciation expense— business—type activities	<u>\$88,177</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 8. Interfund Receivables, Payables and Transfers

The following tables are summaries of the City's interfund balances at September 30, 2004:

Due To/From Other Funds

	<u>Due To</u>	<u>Due From</u>
Governmental Major Fund:		
General Fund	\$2,324	\$1,321
Debt Service Fund	0	2,762
Non-major governmental	1,729	0
Business-Type Major Fund:		
Airport Revenue	0	2,324
Dallas Water Utilities	<u>2,762</u>	<u>408</u>
Total	<u>\$6,815</u>	<u>\$6,815</u>

The majority of the balances in the Due To/Due From accounts at September 30, 2004 represent the current portion of the related note receivable/payable in the following table.

Interfund Notes Receivables and Payables

Interfund notes receivable and payable balances at September 30, 2004 were as follows:

	<u>Interfund Notes Receivables</u>	<u>Interfund Notes Payables</u>
Governmental Major Funds:		
General	\$0	\$308
Debt Service	4,031	0
Nonmajor Governmental funds	4,469	9,463
Business type Major Funds:		
Dallas Water Utilities	<u>5,302</u>	<u>4,031</u>
Total	<u>\$13,802</u>	<u>\$13,802</u>

The majority of these balances relate to long-term borrowing by the City's enterprise funds from the governmental funds and other enterprise funds. The proceeds of those loans were utilized to finance various capital acquisitions.

Transfers In/Out

Transfers made between funds during the year are listed below:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Major Funds:		
General Fund	\$10,285	\$10,449
Debt Service	16,906	245
Nonmajor governmental funds	19,230	25,427
Business-type Major Funds:		
Dallas Water Utilities	504	0
Convention Center	245	3,563
Airport Revenue	0	46
Nonmajor business-type funds	0	916
Internal Service Funds	<u>38</u>	<u>6,562</u>
	<u>\$47,208</u>	<u>\$47,208</u>

The majority of the transfers were transactions to the General Fund, Debt Service Funds and non-major governmental funds to support construction projects, purchase equipment and service the debt associated with bonds.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
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Note 9. Accounts Payable and Accrued Expenses

The primary government's accounts payable and accrued expenses at September 30, 2004 is broken down as follows:

	General	Debt Service	Other Governmental	Internal Service	Total Governmental Activities
Accounts, Contracts and Retainage Payable	\$11,796	\$67	\$12,891	\$3,924	\$28,678
Accrued payroll	12,242	0	142	209	12,593
Due to other government	0	0	1	0	1
Other liabilities	<u>18,541</u>	<u>49</u>	<u>52,613</u>	<u>573</u>	<u>71,776</u>
Total	<u>\$42,579</u>	<u>\$116</u>	<u>\$65,647</u>	<u>\$4,706</u>	<u>\$113,048</u>

	Dallas Water Utilities	Convention Center	Airport Revenue	Non-major Enterprise Funds	Business-Type Activities
Accounts, Contracts and Retainage Payable	\$9,554	\$1,747	\$1,146	\$150	\$12,597
Accrued payroll	528	50	50	100	728
Due to other government	0	6	0	0	6
Other liabilities	<u>75</u>	<u>1,028</u>	<u>571</u>	<u>85</u>	<u>1,759</u>
Total	<u>\$10,157</u>	<u>\$2,831</u>	<u>\$1,767</u>	<u>\$335</u>	<u>\$15,090</u>

Note 10. Long-Term Debt

A. Governmental Activities

The changes in the governmental activities long-term liabilities for the year ended September 30, 2004 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One year
<u>Governmental Activities</u>					
General Obligation Refunding Bonds					
Series 1985	\$6,776	\$314	\$7,090	\$0	\$0
General Obligation Bonds Series 1994	25,000	0	25,000	0	0
General Obligation Bonds Series 1995	16,500	0	13,750	2,750	2,750
Combination Tax and Revenue Certificates of Obligation Series 1995	360	0	180	180	180
General Obligation Bonds Series 1996	37,620	0	17,100	20,520	3,420
General Obligation Bonds Series 1997	40,300	0	14,395	25,905	2,880
Equipment Acquisition Contractual Combination Tax and Revenue Certificates of Obligation Series 1997	2,575	0	645	1,930	645
General Obligation Refunding and Improvement Bonds, Series 1998	207,560	0	12,160	195,400	17,000

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

A. Governmental Activities (continued)

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One year
Tax Increment Financing Reinvestment					
Zone Number Two Bonds, Series 1998	3,355	0	305	3,050	320
Equipment Acquisition Obligations, Series 1999	2,435	0	2,435	0	0
General Obligation Bonds Series 1999	55,470	0	3,470	52,000	3,470
General Obligation Bonds Series 2000	92,125	0	5,420	86,705	5,420
Equipment Acquisition Obligations, Series 2000	12,080	0	6,040	6,040	6,040
Combination Tax and Revenue Certificates of Obligation Series 2000	16,220	0	2,130	14,090	2,190
Tax Increment Financing Reinvestment					
Zone Number Two Bonds, Series 2000	5,840	0	640	5,200	675
General Obligation Bonds Series 1999	61,250	0	3,405	57,845	3,405
Equipment Acquisition Obligations, Series 2001	19,695	0	6,570	13,125	6,565
Risk Management Certificate of Obligation Taxable Series 2001	4,995	0	1,665	3,330	1,665
Equipment Acquisition Obligations, Series 2002	8,961	0	2,243	6,718	2,240
Certificates of Obligation Series 2003	36,171	0	3,634	32,537	3,600
General Obligation Refunding Bonds, Series 2003	84,255	577	15,364	69,468	19,050
General Obligation Refunding Bonds, Series 2003-A	0	57,965	781	57,184	5,100
General Obligation Bonds, Series 2003	0	174,194	82	174,112	9,125
Equipment Acquisition Obligations, Series 2003	0	21,315	3,875	17,440	4,345
Tax Increment Bonds, Series 2004	<u>0</u>	<u>7,549</u>	<u>856</u>	<u>6,693</u>	<u>770</u>
Total General Obligation Bonds	<u>\$739,543</u>	<u>\$261,914</u>	<u>\$149,235(*)</u>	<u>\$852,222</u>	<u>\$100,855</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

A. Governmental Activities (continued)

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One year
Other Liabilities:					
Arbitrage Rebate	3,024	0	2,550	474	0
Compensated Absences	149,115	70,234	43,497	175,852	43,414
Net Pension Obligation	110,131		9,940	100,191	0
Landfill closure/postclosure	17,144	604	0	17,748	17,748
Judgment related to landfill	35,000	0	9,277	25,723	0
Estimated unpaid claims	94,784	106,060	96,336	104,508	44,433
Unfunded claims	1,864	0	1,864	0	0
Section 108 HUD Notes	12,900	0	6,710	6,190	6,190
Capital Leases	<u>0</u>	<u>3,492</u>	<u>1,220</u>	<u>2,272</u>	<u>1,204</u>
Total other liabilities	<u>423,962</u>	<u>180,390</u>	<u>171,394</u>	<u>432,958</u>	<u>112,989</u>
Governmental activities long-term liabilities	<u>\$1,163,505</u>	<u>\$442,304</u>	<u>\$320,629</u>	<u>\$1,285,180</u>	<u>\$213,844</u>

(*) General Obligation payments are as follows: \$56.9 million represent various other refunded bonds, \$90.2 million represents principal payments and \$2.1 million for amortization of premium/bond issuance cost. For governmental activities, general fund resources will be utilized to liquidate compensated absences, and the net pension obligation.

B. Governmental General Obligation Bonds (GO Bonds)

General Obligation Bonds are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied on all taxable property located within the City. In November 2003, the City issued \$173.3 million (excludes premium of \$1 million) of General Obligation Bonds, Series 2003 with an interest rate of 3.5 to 4.5 percent and maturities through fiscal year 2023. In November 2003, the City issued \$21.2 million (excludes premium of \$75 thousand) of Equipment Acquisition Contractual Obligations, Series 2003 with an interest rate range of 2.0 to 2.5 percent and maturities through fiscal year 2008 for various capital equipment. In February 2004, the City issued \$7.5 million (excludes premium of \$49 thousand) of Tax Increment Bonds, Series 2004 with an interest rate range of 2.5 to 3.25 percent and maturities through fiscal year 2012 for various public improvements located within the zone. In February 2004, the City issued \$56 million (excluding a premium of \$4.5 million) of General Obligation Refunding Bonds, Series 2003A with a interest rate of 4.0 to 5.0 percent and maturities through fiscal year 2014. The economic gain on refunding was \$1.4 million and the accounting loss on refunding was \$3 million The debt service savings on refunding was \$1.5 million.

The GO bonds outstanding as of September 30, 2004 are as follows:

	Final Maturity	Interest Rates	Amount
Series 556	2009	5.0%	\$2,750
Series 560	2016	4.0% to 6.0%	20,520
Series 563	2017	4.3% to 5.5%	25,905
Series 571	2018	4.0% to 5.0%	195,400
Series 574	2019	5.125% to 5.5%	52,000
Series 578	2020	5.0% to 5.75%	86,705
Series 583	2021	4.0% to 5.0%	57,845
Series 589	2011	2.50% to 5.0%	69,468
Series 592	2014	4.0% to 5.0%	57,184
Series 593	2023	3.5% to 4.5%	<u>174,112</u>
Total			<u>\$741,889</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

B. Governmental General Obligation Bonds (GO Bonds) (continued)

The Equipment Acquisition Contractual Obligations outstanding as of September 30, 2004 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Series 579	2005	5.25%	\$6,040
Series 584	2006	2.75% to 3.0%	13,125
Series 588	2006	2.0% to 2.25%	6,718
Series 594	2008	2.0% to 2.5%	17,440
			<u>\$43,323</u>

The Certificate of Obligations bonds outstanding as of September 30, 2004 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Series 558	2005	4.65%	\$180
Series 565	2007	4.4% to 4.5%	1,930
Series 580	2010	4.75%	14,090
Series 585	2006	3.6% to 4.5%	3,330
Series 591	2006	2.0% to 3.25%	32,537
			<u>\$52,067</u>

C. Tax Increment Bonds

The Tax Increment bonds outstanding as of September 30, 2004 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Series 566	2012	4.6% to 5.6%	\$3,050
Series 577	2012	4.75% to 5.75%	5,200
Series 596	2012	2.5% to 3.25%	6,693
			<u>\$14,943</u>

D. Governmental Debt Service Requirement

The following is a summary of the future principal and interest requirements for the City's long-term debt excluding interfund debts, at September 30, 2004.

Fiscal year ended September 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$100,855	\$36,556
2006	94,044	32,470
2007	74,570	28,871
2008	67,469	25,823
2009	63,002	22,891
2010-2014	256,865	75,340
2015-2019	148,445	27,607
2020-2024	46,972	3,746
Total	<u>\$852,222</u>	<u>\$253,304</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2004

(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

E. Business-type Activities

The changes in the business-type activities long-term liabilities for the year ended September 30, 2004 are as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Deletions	Balance	One year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Water Utilities Revenue Bonds:					
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1993-A	4,715	0	0	4,715	0
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1997	2,210	0	0	2,210	2,210
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1998	310,075	0	4,415	305,660	2,480
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1999	54,930	0	1,990	52,940	2,105
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2000	69,895	0	2,395	67,500	2,525
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2001	120,045	0	4,130	115,915	4,310
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2002	38,975	0	5,425	33,550	5,620
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2002A	179,350	0	23,500	155,850	30,000
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2003	307,410	0	9,060	298,350	10,315
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2003A	<u>0</u>	<u>164,000</u>	<u>0</u>	<u>164,000</u>	<u>5,985</u>
Revenue Bonds Payable	1,087,605	164,000	50,915	1,200,690	65,550
Add : Unamortized Premium	35,597	5,240	5,642	35,195	0
Less: Refunding Deferral	<u>(9,004)</u>	<u>0</u>	<u>(1,975)</u>	<u>(7,029)</u>	<u>0</u>
Total Revenue Bonds for Water Utilities	<u>\$1,114,198</u>	<u>\$169,240</u>	<u>\$54,582</u>	<u>\$1,228,856</u>	<u>\$65,550</u>
Water Utilities Contractual Obligation:					
Sabine River Authority of Texas Water Supply Facilities Revenue Bonds (Lake Fork Project) Series 1978, 1979, 1991 and 1993	<u>18,745</u>	<u>0</u>	<u>11,512</u>	<u>7,233</u>	<u>7,233</u>
Total Water Utilities Contractual Obligation	<u>\$18,745</u>	<u>\$0</u>	<u>\$11,512</u>	<u>\$7,233</u>	<u>\$7,233</u>
Other: Compensated Absences	13,617	9,617	7,367	15,867	6,347
Arbitrage rebate liability	186	0	186	0	0
Net Pension Obligation	<u>0</u>	<u>25,598</u>	<u>0</u>	<u>25,598</u>	<u>0</u>
Total Long-Term Debt for Water Utilities	<u>\$1,146,746</u>	<u>\$204,455</u>	<u>\$73,647</u>	<u>\$1,277,554</u>	<u>\$79,130</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

E. Business-type Activities (continued)

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One year
<u>Convention Center Revenue Bonds:</u>					
General Obligation Refunding Bonds Series 1985 to be serviced by Enterprise Fund (Convention Center) through February 15, 2004	\$84	\$0	\$84	\$0	\$0
Civic Center Convention Complex Revenue Refunding and Improvement Bonds, Series 1998	294,258	908	7,290	287,876	8,805
Sports Arena Project-Tax Exempt Special Tax Bonds, Series 1998A	88,916	49	1,990	86,975	2,070
Sports Arena Project-Taxable Special Tax and Lease Bonds, Series 1998B	<u>33,091</u>	<u>17</u>	<u>615</u>	<u>32,493</u>	<u>655</u>
Total Convention Center Revenue Bonds	<u>\$416,349</u>	<u>\$974</u>	<u>\$9,979</u>	<u>\$407,344</u>	<u>\$11,530</u>
Other: Compensated Absences	1,031	513	369	1,175	470
Net Pension Obligation	0	1,831	0	1,831	0
Total Long-Term Debt for Convention Center	<u>\$417,380</u>	<u>\$3,318</u>	<u>\$10,348</u>	<u>\$410,350</u>	<u>\$12,000</u>
<u>Airport Revenue Bonds:</u>					
Texas Airport System Revenue Bonds, Series 2001	50,639	0	5,534	45,105	5,555
Other: Compensated Absences	<u>1,413</u>	<u>576</u>	<u>527</u>	<u>1,462</u>	<u>585</u>
Net Pension Obligation	0	2,395	0	2,395	0
Total Long-Term Debt for Airport	<u>\$52,052</u>	<u>\$2,971</u>	<u>\$6,061</u>	<u>\$48,962</u>	<u>\$6,140</u>
Non-Major Business-Type Other: Compensated Absences	2,432	1,537	779	3,190	1,276
Net Pension Obligation	<u>0</u>	<u>4,659</u>	<u>0</u>	<u>4,659</u>	<u>0</u>
Total Business-Type Long-Term Liabilities	<u>\$1,618,610</u>	<u>\$216,940</u>	<u>\$90,835</u>	<u>\$1,744,715</u>	<u>\$98,546</u>

The Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2003A was issued for \$164 million with interest rates ranging from 3.50 to 5.00 percent and maturities through fiscal year 2024 with a premium of \$5.2 million. The proceeds of the bonds were used to retire \$123 million of outstanding commercial paper and the remaining \$41million will be used for current and future construction projects.

F. Water Works and Sewer System Revenue Bonds

The Water Works and Sewer System Revenue Bonds outstanding as of September 30, 2004 are as follows:

	Final Maturity	Interest Rates	Amount
Series 554	2014	4.0%	\$4,715
Series 562	2005	5.0%	2,210
Series 570	2029	4.25% to 5.0%	303,928
Series 573	2020	4.75% to 5.50%	52,940
Series 576	2021	5.25% to 5.75%	68,598
Series 582	2022	5.0% to 5.25%	119,749
Series 586	2014	3.0% to 5.50%	34,430
Series 587	2011	4.0% to 5.0%	158,604
Series 590	2023	3.0% to 5.375%	314,887
Series B595	2024	3.50% to 5.00%	<u>168,795</u>
		Total	<u>\$1,228,856</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

G. Convention Center (Revenue Bonds)

The 7% Hotel Occupancy Tax, operating revenues of the Convention Center Complex, and interest earned on cash balances in the bond reserve and debt service funds are pledged for repayment of the debt. Additionally, the City has reserve funds to provide for the payment of operating and maintenance expenses of the Convention Center Complex, should a shortfall in Convention Center revenues occur. Revenue from the Convention Center operating fund is transferred to the debt service fund to meet annual principal and interest payments.

The Convention Center revenue bonds outstanding as of September 30, 2004 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Civic Center Convention Complex	2028	4.6% to 6.0%	\$287,876
Special Tax Revenue Bonds	2028	4.2% to 5.375%	86,975
Special tax and Lease Revenue Bonds	2027	6.02% to 6.65%	<u>32,493</u>
Total Outstanding			<u>\$407,344</u>

H. Airport (Revenue Bonds)

The Airport Debt Service Fund provides for the payment of principal and interest on the Department of Aviation's outstanding revenue bonded indebtedness. Operating revenues from Airport operations and interest earned on the cash balance in the debt service fund are pledged for repayment of the debt. Revenues are transferred from the Airport operating fund to the debt service fund to meet annual principal and interest obligations.

Airport revenue bonds outstanding as of September 30, 2004 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Airport System Revenue Bonds	2011	5.0%	\$45,105

I. Business-Type Activities Debt Service Requirement

The debt service requirement to maturity at September 30, 2004, for the business-type activities revenue bonds are as follows:

<u>Fiscal year</u>	<u>Water Utilities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$65,550	\$57,670	\$123,220
2006	73,971	54,802	128,773
2007	71,717	51,665	123,382
2008	74,453	48,320	122,773
2009	77,280	44,775	122,055
2010-2014	338,734	171,154	509,888
2015-2019	251,669	99,427	351,096
2020-2024	199,357	40,323	239,680
2025-2029	61,840	11,603	73,443
2030-2034	14,285	357	14,642
Total	<u>\$1,228,856</u>	<u>\$580,096</u>	<u>\$1,808,952</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

I. Business-type Activities Debt Service Requirement (continued)

Fiscal year	Convention Center		
	Principal	Interest	Total
2005	\$11,530	\$21,919	\$33,449
2006	12,671	21,247	33,918
2007	13,389	20,535	33,924
2008	13,209	19,779	32,988
2009	15,021	18,983	34,004
2010-2014	82,892	82,925	165,817
2015-2019	108,572	58,480	167,052
2020-2024	93,552	29,773	123,325
2025-2029	<u>56,508</u>	<u>8,396</u>	<u>64,904</u>
Total	<u>\$407,344</u>	<u>\$282,037</u>	<u>\$689,391</u>

Fiscal year	Airport Revenue Fund		
	Principal	Interest	Total
2005	\$5,555	\$2,194	\$7,749
2006	5,945	1,916	7,861
2007	6,175	1,628	7,803
2008	6,415	1,328	7,743
2009	6,670	1,016	7,686
2010-2014	<u>14,345</u>	<u>1,043</u>	<u>15,388</u>
Total	<u>\$45,105</u>	<u>\$9,125</u>	<u>\$54,230</u>

J. Other Long Term Indebtedness

Contractual Obligation to Sabine River Authority for water rights in Lake Fork

Fiscal year	Water Utilities		
	Principal	Interest	Total
2005	<u>\$7,233</u>	<u>\$199</u>	<u>\$7,432</u>
Total	<u>\$7,233</u>	<u>\$199</u>	<u>\$7,432</u>

K. Bonds Authorized and Unissued

At September 30, 2004, authorized and unissued bonds consisted of General Obligation Bonds in the amount of \$611.7 million. After a period of ten years, unissued bonds are deemed abandoned unless the City obtains prior approval from the State Attorney General's Office to signify the City's intent to issue. An election must be held to deauthorize bonds. No such election has been held in connection with the 1982 Capital Improvement Program bonds. The following is a schedule of authorized but unissued bonds at September 30, 2004.

	Date of Authorization	Amount Authorized	Amount Unissued
1982 Capital Improvement Program	08-03-82	\$5,800	\$5,800
1998 Capital Improvement Program	05-02-98	543,500	189,450
2003 Capital Improvement Program	05-03-03	<u>579,290</u>	<u>416,470</u>
Total		<u>\$1,128,590</u>	<u>\$611,720</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 10. Long-Term Debt (continued)

L. Compliance With Debt Covenants

For the year ended September 30, 2004, management of the City believes that it was in compliance with all financial bond covenants on outstanding revenue and general obligation bonded debt.

M. Commercial Paper Notes

On September 24, 1997, the Dallas City Council authorized a second ten-year exempt commercial paper program for improvements to the City's water and wastewater system, limited to \$120 million commercial paper outstanding and maturity terms of not more than 270 days for interim financing of capital improvements. On December 12, 2001, the Dallas City Council approved increasing the commercial paper program Series B to an aggregate principal amount of \$150 million. On September 30, 2002, the City Council authorized additional commercial paper notes, Series C, limited at any one time to \$50 million principal amount outstanding. On August 25, 2004 the City Council authorized an increase of \$50 million to the Series B program to an aggregate principal amount of \$200 million and an increase of \$50 million to the Series C program to an aggregate principal amount of \$100 million. The City Council also established a 10 year program by extending the maturity date to September 30, 2014.

On an annual basis, Dallas Water Utilities retires commercial paper through refinancing with revenue bonds or use of other available water and wastewater funds. In FY 2004, the City issued commercial paper of \$162.3 million and retired \$123 million. As of September 30, 2004, \$160.9 million commercial paper notes were outstanding with an average maturity from issue of 12 days, and an average interest rate of 1.44%.

Commercial paper notes are supported by two JP Morgan Chase Bank line of credit agreements. The credit agreements supporting the Series B notes, which extends to January 14, 2005 is in an aggregate amount not exceeding \$161.1 million and the credit agreement supporting the Series C notes which extends to October 21, 2004 is in an aggregate amount not exceeding \$51.2 million constitute an obligation subordinate to the City's water and wastewater system revenue bonds. On August 25, 2004 the City Council authorized Bank of America N.A. with line of credit agreements of \$214.8 million for the B Series and \$102.5 million for the C Series effective October 1, 2004. Any advances for payments of commercial paper under the line of credit are secured by a subordinate lien on water and wastewater revenues. No such advances have occurred.

Note 11. Leases

A. As Lessee

As lessee, the City is committed under various leases for building and office space, data processing and communications equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2004, amounted to \$4.3 million.

Future minimum lease payments for these leases are as follows:

<u>Year ending September 30</u>	<u>Rental Payments</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2005	\$3,974	\$2,868	\$1,106
2006	3,600	2,514	1,086
2007	2,976	2,120	856
2008	2,347	1,583	764
2009	1,875	1,374	501
Thereafter	<u>10,053</u>	<u>9,128</u>	<u>925</u>
Minimum future rentals	<u>\$24,825</u>	<u>\$19,587</u>	<u>\$5,238</u>

The City is also committed under a capital lease for the purchase of computer equipment. The liability for future capital lease payments totals \$2.4 million.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 11. Leases (continued)

A. As Lessee (continued)

Future minimum lease payments for capital leases including interest and principal are as follows:

Year ending September 30	Rental Payments
2005	\$1,204
2006	773
2007	358
2008	<u>28</u>
Total minimum future lease payments	2,363
Less: Amount representing interest	<u>(91)</u>
Present value of net minimum lease payments	<u>\$2,272</u>

The following schedule provides an analysis of the City's investments in computer equipment under capital lease arrangements as of September 30, 2004

Equipment	\$2,789
Less: Accumulated depreciation	<u>(2,185)</u>
Total	<u>\$604</u>

B. As Lessor

The City is also under several lease agreements as lessor whereby it receives revenues from leasing airport terminal space, hangars, parking spaces, ramps, convention center facilities, land, buildings, and office space to air carriers and other tenants. These revenue leases are considered for accounting purposes to be operating leases. Additionally, other City departments receive revenues under various agreements for the operation of concessions. Most of these revenues are determined based on various percentages of gross sales for the concessions.

Revenues for the fiscal year ended September 30, 2004 were \$17.2 million. The following is a schedule of minimum future rentals on noncancelable operating leases as of September 30, 2004:

Year ending September 30	Rental Receipts	Government Activities	Dallas Water Utilities	Convention Center	Airport Revenue
2005	\$14,309	\$2,563	\$101	\$10	\$11,635
2006	12,467	2,555	100	0	9,812
2007	11,215	2,560	77	0	8,578
2008	10,729	2,587	42	0	8,100
2009	8,914	1,193	0	0	7,721
Thereafter	<u>89,594</u>	<u>26,817</u>	<u>0</u>	<u>0</u>	<u>62,777</u>
Minimum future rentals	<u>\$147,228</u>	<u>\$38,275</u>	<u>\$320</u>	<u>\$10</u>	<u>\$108,623</u>

The above amounts do not include contingent rentals of the Airport Revenue Fund, which may be received under certain leases; such contingent rentals totaled \$1.1 million in 2004.

The following schedule provides an analysis of the Airport's investment in property under operating lease arrangements as of September 30, 2004:

Buildings	\$173,983
Land	<u>6,255</u>
Sub-total	180,238
Less: Accumulated depreciation	<u>(71,935)</u>
Total	<u>\$108,303</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 12. Prior Years Defeasance of Debt

In prior years, the City legally defeased certain outstanding general obligation, mortgage revenue and enterprise bonds and certificates of obligation by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of the refunded bonds. Accordingly, the trust accounts and the defeased bonds are not included in the City's basic financial statements.

In 2004, the City defeased \$56.9 million in general obligation bonds. The amount of defeased bonds repaid was \$56.6 million in FY 2004. As of September 30, 2004, the City has a total of \$64 million defeased outstanding in General Obligation Bonds.

In 2004, the City retired \$90.9 million of defeased revenue bonds. The City has no defeased outstanding in revenue bonds as of September 30, 2004.

Note 13. Risk Management – Estimated Claims and Judgments Payable

The City is self-insured for all third-party general liability claims. Claims adjusting services are provided by an administrative services contractor. Interfund premiums are based primarily upon the insured funds' claims experience and exposure and are reported as cost reimbursement interfund transactions. The liability for unpaid claims includes the effects of specific incremental claims, adjustment expenses and if probable and material, salvage and subrogation.

All known City property, primarily buildings and contents, is insured through commercial insurance policies, subject to a \$250 deductible per loss occurrence. The amount of settlements has not exceeded insurance coverage for the past three fiscal years.

The City is insured for workers' compensation losses in excess of \$750 thousand per occurrence. Claims adjusting services are provided by an independent "administrative services" only contractor. Workers' compensation premiums are billed periodically by Risk Management to the different funds based on the loss experience and full time equivalents (FTE's) in the respective departments.

All workers' compensation losses are accumulated in a clearing fund which is being reimbursed by the premiums collected. When losses exceed premiums, the deficiencies are prorated and supplemented by the various applicable funds. Accrued workers' compensation liability consists of incurred but not reported as well as unpaid reported claims of which \$67.4 million at September 30, 2004, is recorded in the Risk Funds. The City maintains a group health insurance plan for employees and dependents which is self-insured by the City. The City also offers enrollment in one health maintenance organization as an alternative. Premiums are determined based on the annual budget. The City also maintains a group life insurance plan which offers term-life and accidental death and dismemberment for employees and dependents. The City is fully insured for employee term-life. Health claims and claims incurred but not reported that are probable and can be reasonably estimated are accrued in the accompanying basic financial statements at September 30, 2004, in the amount of \$16.6 million in the Risk Funds.

At September 30, 2004, the City estimates its workers' compensation liability at \$67.4 million. Of this amount, \$18.5 million is estimated to be payable in the next fiscal year.

Changes in the balances of claims liabilities during the past year are as follows:

	<u>Workers'</u>		<u>Health</u>		<u>General</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of year	\$57,177	\$49,165	\$12,772	\$10,511	\$24,835	\$25,165
Incurred claims (including IBNRs and changes in estimates)	28,373	24,302	75,418	63,347	2,269	4,702
Claim payments	<u>(18,176)</u>	<u>(16,290)</u>	<u>(71,587)</u>	<u>(61,086)</u>	<u>(6,573)</u>	<u>(5,032)</u>
Unpaid claims, end of year	<u>\$67,374</u>	<u>\$57,177</u>	<u>\$16,603</u>	<u>\$12,772</u>	<u>\$20,531</u>	<u>\$24,835</u>

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 13. Risk Management – Estimated Claims and Judgments Payable (continued)

As a result of a lawsuit filed against the City, the City has submitted an application to participate in the Texas Commission on Environmental Quality's Voluntary Clean-up Program related to an unauthorized dumping site. The City estimates that the cost of the containment closure plan will be approximately \$26 million. The City financed these costs through tax-supported debt and general fund revenues.

Note 14. Accrued Landfill Liability

The City owns and operates the McCommas Bluff landfill located in the southern portion of the City with an estimated remaining useful life of 44 years. The remaining calculated life expectancy has decreased from the previous year's report due to landfill volume consumption in the past year. Closure and postclosure care of this landfill is subject to the requirements of Subtitle D of the Resource Conservation and Recovery Act (P.L. 94-580) and Sections 330.250-256 of Title 30 of the Texas Administrative Code administered by the Texas Commission on Environmental Quality (TCEQ). These regulations require the City to place a final cover on each cell of the landfill when it ceases to accept waste and perform certain maintenance and monitoring functions for thirty years after the closure of each cell.

Although 27.2 percent of the landfill's capacity has been depleted, the City has not yet initiated closure of any of this landfill or incurred closure expenses because final contours have not been achieved. Therefore, the estimated \$17.7 million liability for closure/postclosure care is based on 27.2 percent of the capacity subject to TCEQ regulations--none of which is expected to be paid from current available resources.

The estimated total liability of \$63.2 million is based on current dollar average cost per acre calculations for this specific landfill as originally provided by consulting firms and has been revised annually by the City to accommodate inflation, deflation, technology, and developmental or regulation changes. In accordance with the provisions of Codification of Governmental Accounting and Financial Reporting Standards, Section L10, "Landfill Closure and Postclosure Care Costs," the City has recorded a closure and postclosure liability of \$17.7 million as a long-term liability. Closure and postclosure care are funded through current General Fund revenues generated by landfill operations. Effective April 9, 1997, Sections 330.280-284 of Title 30 of the Texas Administrative Code requires landfill owners to demonstrate financial assurance on an annual basis that they will have sufficient financial resources to satisfy closure and postclosure care expenditures at such time as these become payable.

Note 15. Pension Plans

A. Plan Descriptions

The City participates in funding three contributory, defined benefit employee pension plans. These plans are single employer plans and use the entry-age-normal cost method. Membership is a condition of employment for all full-time, permanent employees.

The excess of required pension expense (as computed in accordance with GASB No. 27) over contributions made to the Police and Fire Pension System and Employees' Retirement Fund is recorded as a net pension obligation in the Statement of Net Assets in accordance with Codification of Governmental Accounting Standards, Section P20. The City is legally obligated to contribute to the Police and Fire Pension System a specified range of covered payroll (21.5%-28.5%) and an amount at least equal to employee contributions (6.5%) to the Employees' Retirement Fund. Actual contributions made by the City and the members for the Employee Retirement Fund are less than the normal cost component of the Actuarially Required Contribution (ARC) calculation for 2003, and do not include contribution necessary to cover the Amortization of Unfunded Liability or the Expense Allowance components of the ARC calculation.

The City is also legally obligated to fund the Police & Fire Supplemental Pension Fund in an amount actuarially determined each year. In the opinion of the City Attorney, the City is not legally obligated to fund any additional amounts. The activities of the entities as of December 31, 2003 are reported in the City's Pension Trust Funds. Their separate audited financial statements may be obtained through the City.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 15. Pension Plans (continued)

A. Plan Descriptions (continued)

The pension plans are as follows:

Employees' Retirement Fund. The legal authority for this plan is Chapter 40A of the Dallas City Code. This plan is for the benefit of all eligible employees of the City, excluding firefighters and police officers. Members have vested rights to retirement benefits after five years of service. Benefits are based on credited service and the average monthly earnings for the three highest calendar years. Members of the Fund are entitled to normal retirement pension at age 60; early retirement pension at age 55 if employed prior to May 9, 1972 or age 50 and years of service total 78; service retirement pension at any age after 30 years of credited service and disability retirement pension as determined by the Board of Trustees. Contribution percentages of covered wages are 6.5 percent for employees and 11.0 percent for the City.

	2003 Number of <u>People</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>5,306</u>
Current employees:	
Vested	5,337
Non vested	<u>2,201</u>
Total current employees	<u>7,538</u>

Dallas Police and Fire Pension System. The legal authority for this plan is Article 6243a of the Texas Revised Civil Statutes. The Fund is comprised of three defined benefit plans, commonly known as "Old Plan", "Plan A," and "Plan B," designed to provide retirement, death and disability benefits for firefighters, police officers and fire alarm operators. All eligible employees of the Fire Department and Police Department participate in one of the plans with "Plan B" covering 99 percent of eligible employees. Participation in "Plan B" is mandatory for those employed on or after March 1, 1973. Under the "Old Plan", employees with 20 years or more of service are entitled to monthly pension benefits beginning at normal retirement age 50. Under "Plan A", employees with 20 years or more of service are entitled to monthly pension benefits beginning at normal retirement age 55. Under "Plan B", employees with five or more years of service are entitled to annual pension benefits beginning at normal retirement age 50. Contribution percentages of covered wages are 27.5 percent for the City for all three plans and 6.5 percent for employees in the "Old Plan" and "Plan A" and 8.5 percent for employees in "Plan B". In the opinion of the City Attorney, the City is not legally obligated to fund any additional amounts.

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CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
(all \$ amounts in thousands unless otherwise noted)

Note 15. Pension Plans (continued)

A. Plan Descriptions (continued)

	<u>2003</u> <u>Number of People</u>
Retirees and beneficiaries currently receiving benefits:	
Firefighters	1,313
Police Officers	1,634
Terminated vested members not yet receiving benefits	<u>152</u>
Total	<u>3,099</u>
Current Vested Employees:	
Firefighters	1,382
Police Officers	2,334
Current Nonvested:	
Firefighters	291
Police Officers	<u>599</u>
Total	<u>4,606</u>

Police and Fire Supplemental Pension Fund. The legal authority for this plan is Subsection 35 of Chapter II of the Charter of the City of Dallas and Ordinance 14084 of 1973. This plan includes officials in the Fire and Police Departments who hold rank higher than the highest corresponding Civil Service rank available as a result of competitive examination. Employees with five or more years of service are entitled to annual pension benefits beginning at normal retirement age 50. The City's contributions shall be made in accordance with actuarial requirements as established by the qualified actuary and the Police and Fire Supplemental Pension Fund Board. In the opinion of the City Attorney, the City is not legally obligated to fund any amount exceeding the actuarially determined amount.

	<u>2003</u> <u>Number of People</u>
Retirees and beneficiaries currently receiving benefits:	
Firefighters	44
Police Officers	60
Total	<u>104</u>
Current vested employees:	
Firefighters	15
Police Officers	16
Current nonvested:	
Firefighters	0
Police Officers	<u>0</u>
Total	<u>31</u>

B. Schedule of Employer Contribution

	<u>Employees' Retirement Fund</u>		<u>Dallas Police and Fire Pension System</u>		<u>Police and Fire Supplemental Pension Fund</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/03	\$65,849	52.7	\$78,323	100.0	\$1,000	100.0
12/31/02	49,475	74.0	77,085	100.0	900	100.0
12/31/01	31,728	111.0	75,592	100.0	800	100.0

(Net Annual Required Contributions is calculated by subtracting employees' contributions from Annual Required Contribution.)

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 15. Pension Plans (continued)

C. Net Pension Obligation (NPO) for 2003, 2002 and 2001

Employee Retirement Fund

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual required contribution (ARC)	\$86,429	\$71,246	\$52,542
Interest on NPO	7,434	6,982	7,674
Adjustment to the ARC	<u>(14,011)</u>	<u>(13,160)</u>	<u>(14,463)</u>
Annual Pension Cost	79,852	65,068	45,753
Contribution Made	<u>55,309</u>	<u>58,377</u>	<u>55,996</u>
Change in NPO	24,543	6,691	(10,243)
NPO, beginning of year	<u>110,131</u>	<u>103,440</u>	<u>113,683</u>
NPO, end of year	<u>\$134,674</u>	<u>\$110,131</u>	<u>\$103,440</u>

The net pension obligation has been allocated between governmental activities and business type activities based on percentage of contribution by each.

D. Net Pension Obligation (NPO) for 2003, 2002 and 2001

Dallas Police and Fire Pension System

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual required contribution (ARC)	\$94,610	\$93,359	\$91,736
Interest on NPO	0	0	0
Adjustment to the ARC	<u>0</u>	<u>0</u>	<u>0</u>
Annual Pension Cost	94,610	93,359	91,736
Contribution Made	<u>94,610</u>	<u>93,359</u>	<u>91,736</u>
Change in NPO	0	0	0
NPO, beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
NPO, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Dallas Police and Fire Pension System Supplemental Plan

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual required contribution (ARC)	\$1,000	\$948	\$841
Interest on NPO	0	0	0
Adjustment to the ARC	<u>0</u>	<u>0</u>	<u>0</u>
Annual Pension Cost	1,000	948	841
Contribution Made	<u>1,000</u>	<u>948</u>	<u>841</u>
Change in NPO	0	0	0
NPO, beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
NPO, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

E. Significant Actuarial Methods and Assumptions

<u>Assumptions</u>	<u>Employees' Retirement Fund</u>	<u>Dallas Police and Fire Pension System</u>	<u>Police and Fire Supplemental Pension Fund</u>
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage	Level Percentage	Level Percentage
Asset valuation method	Open Market	Fair market value	Fair market value
	30 Years – Open	38 Years – Open	13 Years – Open
Amortization period	Period	Period	Period
Investment rate of return	8.5%	8.5%	8.5%
Inflation rate	4.0%	4.0%	4.0%
Projected salary increase	4.0%	4.3%-10.0%	4.3%-10.0%

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Note 15. Pension Plans (continued)

F. Securities Lending Transactions

The Employees' Retirement Fund and Dallas Police and Fire Pension System Boards have authorized the Plans to enter into agreements with the Northern Trust ("Northern Trust") and State Street Bank and Trust Company ("State Street") respectively, for the lending of certain of the Plans' securities (the "Securities Lending Program" or Program) including, but not limited to, stocks and bonds to counter party brokers and banks ("borrowers"), for a predetermined period of time and fee. Such transactions are not prohibited by state statute.

During the December 31, 2003 fiscal year, State Street and JP Morgan lent on behalf of the Dallas Police and Fire Pension System, securities held by State Street and JP Morgan as a custodian, and received United States dollar cash and United States Government securities as collateral. State Street and JP Morgan did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was in the United States or sovereign debt issued by foreign governments, 102% of the fair market value of the loaned securities, and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not in the United States dollars, 105% of the fair market value of the loaned securities. The collateral held and market value of securities on loan for the System as of December 31, 2003 and 2002 were \$182.7 million and \$188.6 million and \$167 million and \$172.7 million respectively.

During the December 31, 2003 fiscal year, Northern Trust loaned, on behalf of the Employees' Retirement Fund, securities held by Bankers Trust, as a custodian, and received United States dollar cash, United States government agency securities and irrevocable bank letters of credit as collateral. Northern Trust did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities in which collateral is all denominated in the same currency as the loaned securities, 102% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon, and (ii) in the case of loaned securities denominated in a different currency from the loaned securities, 105% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon. At year-end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system. The following table shows the type of collateral held, the market value of the securities on loan, and the market value of the collateral held for open loans at December 31, 2003.

Collateral Type	Collateral		Collateral Percentage	Collateral		Collateral Percentage
	Market Value	Market Value		Market Value	Market Value	
	12/31/03	12/31/03		12/31/02	12/31/02	
Cash	\$223,289	\$239,829	103%	\$162,588	\$166,588	102%
Non-cash	28,857	29,620	103%	24,538	25,013	102%
Total	<u>\$252,146</u>	<u>\$269,449</u>		<u>\$187,126</u>	<u>\$191,601</u>	

The Boards did not impose any restrictions during the fiscal year on the amount of the loans that Northern Trust and State Street made on their behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal years resulting from a default of the borrowers or Northern Trust and State Street. Northern Trust is contractually obligated to fully indemnify the Plan for a borrower's failure to return the loaned securities. State Street maintains a Banker's Blanket Bond in the amount of \$75 million and has insurance coverage in the amount of \$50 million for any losses which could result from a borrower's default.

Note 16. Commitments and Contingencies

A. Pending Lawsuits and Claims

Various claims and lawsuits are pending against the City. In accordance with GAAP, those judgments which are considered "probable" are accrued, while those claims and judgments which are considered "reasonably possible" are disclosed but not accrued.

CITY OF DALLAS, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2004
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Note 16. Commitments and Contingencies (continued)

A. Pending Lawsuits and Claims (continued)

In the opinion of the City Attorney the potential loss resulting from all significant claims which are considered reasonably possible, excluding condemnation proceedings, is approximately \$4.2 million as of September 30, 2004. At September 30, 2004, approximately \$11.9 million has been recorded in the Risk Funds for claims and lawsuits considered to be probable. In the opinion of the City Attorney, this is the total of all such claims which represent probable loss to the City. The City is a defendant in certain class action lawsuits arising from City Ordinance #16084, adopted on January 22, 1979, and involving a dispute regarding salary schedules and the maintenance of percentage pay differentials between grades for sworn members of the ranks of the City's fire and police departments. In two of the class action lawsuits, the plaintiffs have alleged damages of approximately \$94 million. The amount of alleged damages has not been specified in the other lawsuits. The City disputes the plaintiffs' allegations and has asserted various special exceptions and affirmative defenses in response to plaintiffs' lawsuits. The ultimate outcome of these lawsuits cannot be determined at this time and accordingly, no amounts related to these claims have been accrued in the City's financial statements as of September 30, 2004.

The City and seven individual police officers are defendants in ten civil rights lawsuits, brought by twenty-five plaintiffs, alleging federal constitutional violations and state law claims arising out of the arrests and prosecutions of the plaintiffs for delivery or possession with intent to deliver large quantities of controlled substances. All of the arrests were based on information from confidential informants. Some of the substances seized contained either no controlled substance or only trace amounts of controlled substance. The Dallas County District Attorney dismissed the criminal cases against the plaintiffs.

The plaintiffs' federal claims include alleged violations of the Fourth and Fourteenth Amendments, unlawful detention and arrest, excessive force and deprivation of liberty. The state claims include allegations of false arrest, false imprisonment, assault and battery, and intentional infliction of emotional distress. The City has authorized an independent investigation of the matter, the results of which have been publicly disclosed. At September 30, 2004, approximately \$7.8 million has been recorded for claims and lawsuits considered to be probable.

B. Commitments and Contingencies

The City participates in a number of Federally assisted and State grant programs. Principally, the Community Development Block Grant; Women, Infants and Children; and HOME Programs. The programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of the expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amount, if any, to be immaterial.

The City has several major construction projects planned or in progress as of September 30, 2004. These projects are evidenced by contractual commitments and include the following: \$236.1 million for water and wastewater improvements; \$77.8 million for street and thoroughfares; \$43.9 million for park and recreation projects and \$33.5 million to continue projects in the Trinity River Corridor.

C. Conduit Debt Obligations

In January 2001, the City approved issuance of City of Dallas Housing Finance Corporation Single Family Mortgage Revenue Bonds Series 2001A and Series 2001B, in an aggregate principal amount not to exceed \$25 million. The approval by the City is provided solely for the purpose of satisfying the conditions and requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended, and receiving the City's consent to issuance and plan of financing of these Bonds shall not be construed so as to subject the City, its officers or employees to any liability or obligation with respect to the Bonds. The Bonds specifically provide that they are not a debt of the City of Dallas and the State of Texas and that the City of Dallas and the State of Texas are not liable with respect to the Bonds and accordingly no amounts related to these Bonds have been accrued in the City's financial statements as of September 30, 2004. Total debt outstanding is \$17.1 million as of September 30, 2004.

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Note 17. Post Employment Benefits

In addition to pension benefits, various Council resolutions require the City to provide certain health care and life insurance benefits for retired employees. The City is self insured for these programs. The costs of these benefits are recognized as expenditures on a cash basis when the underlying claims are paid.

For retired employees over 65, the City pays approximately \$343.00 for medicare "A" if the retirees are not eligible for Social Security coverage. The retirees are responsible for medicare "B".

For retirees who qualify and choose the City health plan, the city pays approximately 46 percent and the retiree pays approximately 54 percent of the plan. There were 4,748 retiree participants in the health plan in September, 2004. Total claim payments for FY 2004 were approximately \$12.5 million net of participants' and pension plans' contributions.

Note 18. Discretely Presented Component Units' Condensed Financial Information

Housing Finance Corporation is the only "major" discretely presented component unit, as defined by the Codification of Governmental Accounting Standards, Section 2100, "Defining the Financial Reporting Entity". Summary component unit condensed financial information as of September 30, 2004, is presented below:

<u>Condensed Statement of Net Assets</u>			
	<u>Housing Finance Corporation</u>	<u>Non-Major Component Units</u>	<u>Totals</u>
Current assets	\$787	\$2	\$789
Current liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets-unrestricted	787	2	789
Total net assets	<u>\$787</u>	<u>\$2</u>	<u>\$789</u>
<u>Condensed Statement of Revenues, Expenses and Changes in Net Assets</u>			
	<u>Housing Finance Corporation</u>	<u>Non-Major Component Units</u>	<u>Totals</u>
Operating revenues	\$209	\$0	\$209
Operating expenses, excluding depreciation	<u>162</u>	<u>0</u>	<u>162</u>
Operating income	47	0	47
Non-operating revenues	<u>10</u>	<u>0</u>	<u>10</u>
Change in net assets	<u>\$57</u>	<u>\$0</u>	<u>\$57</u>

Note 19. Subsequent Events

In November 2004, the City issued Equipment Acquisition Contractual Obligation Bonds, Series 2004 of \$23.5 million (excludes premium of \$228 thousand) with an interest rate range of 3.0 to 4.0 percent and serial maturities through FY 2009 for various type of capital equipment.

In November 2004, the City issued General Obligation Bonds, Series 2004 of \$162.6 million (excludes premium of \$9.8 million) with an interest rate range of 4.0 to 5.0 percent and serial maturities through FY 2024 for various permanent public improvements in the City.

In November 2004, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2004 of \$6 million (excludes premium of \$3 thousand) with an interest rate range of 3.0 to 3.25 percent and serial maturities through FY 2014 to fund capital improvements to various City facilities to comply with the City's separate municipal storm sewer system.

In February 2005, the City will issue Taxable General Obligation Pension Bonds, Series 2005 in the amount of \$399.3 million to partially fund an actuarial loss in the civilian employees pension fund.

In February 2005, the City plans to issue \$235.8 million in Waterworks and Sewer System Revenue Refunding bonds series 2005. Series 2005 will be issued to retire \$173 million in commercial paper notes and advance refund a portion of Series 1999 and Series 2000 outstanding bonds.

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