City of San Antonio, Texas
Financial and Compliance Report on State Grants
"Single Audit Report"
Fiscal Year Ended September 30, 2008

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on State Grants "Single Audit Report"

For Fiscal Year-Ended September 30, 2008

Prepared by:
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City of San Antonio, Texas

Introductory Section

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City of San Antonio, Texas

Letter of Transmittal

CITY OF SAN ANTONIO
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 30, 2009

To the Honorable Mayor and City Council:

The City of San Antonio's Financial and Compliance Report on State Grants (Single Audit Report) for the fiscal year-ended September 30, 2008, has been audited by the City's Independent Auditor, Grant Thornton, LLP, and has been prepared in accordance with the *State of Texas Single Audit Circular*. The report is comprised of the City's Management's Discussion and Analysis (MD&A), Basic Financial Statements, Schedule of Expenditures of State Awards, the Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular*, the Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With the *State of Texas Single Audit Circular*, and Schedule of Findings and Questioned Costs.

The City was awarded a total of $6.360 million in State assistance for the fiscal year-ended September 30, 2008, compared to $3.871 million in the previous fiscal year. The net increase of $2.489 million is reported in the following categories:

Interlibrary Services	$	98,746
Public Health		(93,824)
Criminal Justice		(158,693)
Environmental Quality		818,148
Emergency Management		1,825,516
Total Net Increase	$	2,489,893

A summary schedule reflecting amounts of categorical grants to the City in fiscal year 2008 as compared to the preceding year is presented on page iv. In addition, for your convenience, a list of acronyms identifying grantor agencies used in this report is provided on page v.

Information on each of the categorical grants is presented on the following pages as it relates to state financial assistance.

Information as it relates to federal financial assistance awarded to the City for the fiscal year-ended September 30, 2008 and the Schedule of Expenditures of Federal Awards is published in a separate report entitled Financial and Compliance Report on Federal Grants "Single Audit Report."

CATEGORICAL GRANTS

Interlibrary Services - $185,933

In fiscal year 2008, the City was awarded a Loan Star Libraries grant totaling $185,933 from the Texas State Library and Archives Commission (TSLAC). Last year's award was $87,187. The Loan Star Libraries grant is a direct State aid grant program for the public libraries in Texas. The Loan Star grant was used to continue the Library's goal of providing rewarding and productive educational experiences for youth. Thirty (30) Early Literacy stations, preloaded with over forty (40) software programs that are developmentally appropriate for children from toddlers to third grade, were purchased and are located in library locations throughout San Antonio. Tutor.com, an additional software component on these computers, provides Live Homework Help in math, science, social studies and English for children ranging from kindergarten to introductory college. Remaining funds were used to purchase Digital Library Assistants to support the Library's new Radio Frequency Identification (RFID) technology. These cordless, handheld units detect RFID tags on library materials, allowing for rapid completion of tasks such as shelf reading, searching for missing items and retrieving materials for customers.

Public Health - $1,297,117

The Texas Department of State Health Services (DSHS) awarded the San Antonio Metropolitan Health District (SAMHD) $1,297,117 in fiscal year 2008 for Public Health State Supported Projects, compared to $1,390,941 in 2007. The Public Health State Supported Projects included $691,426 for the Local Health Support Program which provides support services for a variety of public health programs, and $605,691 to fund the Inner City School Immunization Program. This program provided immunization delivery and established consistent policies to immunize pre-school age children.

Local Health Support Program	(DSHS)	$ 691,426
Inner City School Immunization Program	(DSHS)	605,691
Total		$ 1,297,117

Criminal Justice - $993,972

The City was awarded a Criminal Justice grant totaling $993,972 in fiscal year 2008, compared to $1,152,665 in the prior year. The grant was awarded to the Police Department from the Texas Automobile Burglary and Theft Prevention Authority (TABTPA). The grant's purpose is to lower the automobile theft rate by instituting innovative enforcement and theft prevention techniques and creating a multi-jurisdictional unit composed of city, county, and state elements.

Environmental Quality - $1,450,230

Environmental Quality grants totaling $1,450,230 were awarded in fiscal year 2008 compared to $632,082 awarded to the City in the previous year. The Texas Commission on Environmental Quality (TCEQ), through the Alamo Area Council of Governments (AACOG), awarded the Solid Waste Management Department $1,054,397 to provide support for environmental programming efforts related to recycling, solid waste stream reduction and municipal enforcement of anti-dumping laws. Additionally, the TCEQ, through AACOG, awarded to SAMHD a $395,833 grant to support the Public Center for Environmental Health (PCEH), in the operation and maintenance of air monitors.

Regional Solid Waste Pass-Through Grants	(TCEQ/AACOG)	$ 1,054,397
San Antonio Air Monitoring Project	(TCEQ/AACOG)	395,833
Total		$ 1,450,230

CATEGORICAL GRANTS (Continued)

Emergency Management - $2,433,156

Emergency Management grants in the amount of $2,433,156 were awarded in fiscal year 2008 compared to $607,640 awarded the previous year. A grant for $30,848 was awarded by DSHS through the Southwest Texas Regional Advisory Council (STRAC) to be used for eligible Emergency Management Services expenses. The City additionally was awarded funding from the Office of the Governor – Division of Emergency Management (GDEM) totaling $2,323,001 for the local match requirements associated with Federal Emergency Management Agency (FEMA) grants for the 2008 Hurricanes (Dolly, Gustav, Ike, and Ike - Houston Deployment); and a grant for $79,307 for operations surrounding Tropical Storm Edouard.

Emergency Management Services	(DSHS/STRAC)	$ 30,848
Hurricane Dolly	(GDEM)	110,598
Hurricane Gustav	(GDEM)	607,731
Hurricane Ike	(GDEM)	1,482,612
Hurricane Ike - Houston Deployment	(GDEM/COH)	122,060
Tropical Storm Edouard	(GDEM)	79,307
		$ 2,433,156

STATE COORDINATING AGENCY

The *State of Texas Single Audit Circular* designates the selection of a State "coordinating" agency for each grantee's Single Audits. The Office of the Governor - Criminal Justice Division, was designated as the State-coordinating agency for the City of San Antonio. This report, as in the past, has been submitted to this agency for its review and approval.

PAST AND CURRENT YEAR AUDIT FINDINGS

Under the Single Audit process, grantor agencies require the resolution of any audit findings or questioned costs. The City diligently pursues the resolution of audit findings or questioned costs with grantor agencies. A detailed account of findings associated with the fiscal year ended September 30, 2008 is presented in the "Schedule of Findings and Questioned Costs" beginning on page 169 of this report. A summary schedule entitled "Summary Schedule of Prior Audit Findings" is also available under separate cover. This schedule describes the City's planned corrective action in response to the prior year's findings and questioned costs. The City continues its efforts to resolve each of these findings with the respective grantor agency.

CONCLUSION

During fiscal year 2008, as in the past years, the City has been the recipient of State grants in support of the acquisition of facilities, the construction of public improvements, and the operation of programs, which the City would have been unable to undertake from local resources. These State grants have materially contributed to enhancing the quality of life for the citizens of San Antonio.

I extend my sincere appreciation to the City Council for its dedicated work in its authorization of our grant programs and its leadership along with the City Manager, Deputy City Managers, Assistant City Managers, their staff and to all the City Departments who administer these grant programs. Additionally, I would also like to express my appreciation to the staff of the Finance Department, particularly the staff of the Accounting Division, Financial Reporting Section, for their financial accounting of these grant programs, and to our independent auditors, Grant Thornton, LLP, for their professional assistance in the preparation of this report.

Respectfully submitted

Ben Gorzell Jr., CPA, Director
Finance Department

City of San Antonio, Texas
Schedule of State Grants Awarded in Fiscal Year 2008
(With comparative totals for Fiscal Year 2007)

Grant Type	Fiscal Year 2007-2008	Fiscal Year 2006-2007	Variance Increase (Decrease)
Categorical Grants:			
Interlibrary Services	$ 185,933	$ 87,187	$ 98,746
Public Health	1,297,117	1,390,941	(93,824)
Criminal Justice	993,972	1,152,665	(158,693)
Environmental Quality	1,450,230	632,082	818,148
Emergency Management	2,433,156	607,640	1,825,516
Total Categorical Grants	$ 6,360,408	$ 3,870,515	$ 2,489,893

GRANTING AGENCY AND PROGRAM ACRONYMS

AACOG	-	Alamo Area Council of Governments
SAMHD	-	San Antonio Metropolitan Health District
STRAC	-	Southwest Texas Regional Advisory Council
TABTPA	-	Texas Automobile Burglary and Theft Prevention Authority
TCEQ	-	Texas Commission on Environmental Quality
TSLAC	-	Texas State Library and Archives Commission
DSHS	-	Texas Department of State Health Services
PCEH	-	Public Center for Environmental Health
RFID	-	Radio Frequency Identification
GDEM	-	Office of the Governor - Division of Emergency Management
FEMA	-	Federal Emergency Management Agency
COH	-	City of Houston

City of San Antonio, Texas

Financial Section

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Independent Auditor's Report

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The Honorable Mayor and Members of the City Council
City of San Antonio, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, and San Antonio Public Library Foundation, blended component units, which represent 68%, 73% and 44%, respectively, of the assets, net assets and revenues /additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Main Plaza Conservancy, Municipal Golf Association – San Antonio, SA Energy Acquisition Public Facilities Corporation, San Antonio Educational Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, San Antonio Public Library Foundation, and City Public Service of San Antonio were not audited in accordance with Government Auditing Standards. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

Grant Thornton

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 17 to the financial statements, the net assets of the governmental activities, aggregate remaining funds and the component units as of September 30, 2007 have been restated.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 157, and Schedules of Funding Progress on pages 158 - 161 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the schedule of expenditures of state awards that is required by the State of Texas Single Audit Circular listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of state awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Grant Thornton LLP

Dallas, Texas
March 30, 2009

Management's Discussion and Analysis
(Required Supplementary Information)
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year-ended September 30, 2008. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,694,476 (net assets). Of this amount, $194,244 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $904,700, an increase of $75,378 compared to the restated fiscal year 2007 fund balance. The total unreserved fund balance of $478,904 is available for spending at the government's discretion. Of this amount, $91,499 is designated and $387,405 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $190,775 or 25.9% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the City of San Antonio's basic financial statements, which have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

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

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may help determine or help indicate whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare, and economic development and opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although nonmajor funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three categories: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

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

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Categorical Grant-In Aid, and the Debt Service Fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary Funds **-** The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Airport System, Parking System, and Environmental Services Funds. *Internal Service Funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services, and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements and are reported alongside the enterprise funds in the fund financial statements.

Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Airport System Fund, which is considered to be a major fund. The Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Data from the other enterprise funds are combined into a single, aggregated presentation labeled "Nonmajor Enterprise Funds." Individual fund data for each nonmajor enterprise fund and each internal service fund are provided in the form of respective combining statements elsewhere in this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. With the exception of agency funds, the accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and the accompanying notes, this report also presents the required supplementary information of (a) the City's General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and postemployment plans. The Debt Service Fund, various Special Revenue Funds and specific Permanent Fund budgets, which are legally adopted on an annual basis, are also included in the CAFR as supplementary schedules within the Combining Financial Statements and Schedules.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year-ended September 30, 2008.

Net Assets
Year-Ended September 30, 2008
(With Comparative Totals for September 30, 2007 Restated)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007 (Restated)*	2008	2007	2008	2007 (Restated)*
Current and Other Assets	$ 1,224,028	$ 1,138,798	$ 358,995	$ 245,495	$ 1,583,023	$ 1,384,293
Capital Assets	3,335,579	3,198,188	417,333	344,861	3,752,912	3,543,049
Total Assets	4,559,607	4,336,986	776,328	590,356	5,335,935	4,927,342
Current and Other Liabilities	379,171	333,615	44,844	51,634	424,015	385,249
Long-term Liabilities	1,802,279	1,674,050	415,165	252,307	2,217,444	1,926,357
Total Liabilities	2,181,450	2,007,665	460,009	303,941	2,641,459	2,311,606
Net Assets:						
Investments in Capital Assets, Net of Related Debt	2,092,623	2,024,576	208,894	201,846	2,301,517	2,226,422
Restricted	122,537	120,591	76,178	61,559	198,715	182,150
Unrestricted	162,997	184,154	31,247	23,010	194,244	207,164
Total Net Assets	$ 2,378,157	$ 2,329,321	$ 316,319	$ 286,415	$ 2,694,476	$ 2,615,736

* Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.

For the year-ended September 30, 2008, total assets exceeded liabilities by $2,694,476. The largest portion of the City's net assets, $2,301,517 (85.4%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, $198,715, 7.4%, represents resources that are subject to external restrictions on how they may be used. The remaining $194,244, 7.2%, represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

City of San Antonio, Texas - 3 - Amounts are expressed in thousands

City of San Antonio, Texas
Changes in Net Assets
Year-Ended September 30, 2008
(With Comparative Totals for September 30, 2007 Restated)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007 (Restated)*	2008	2007	2008	2007 (Restated)*
Revenues:						
Program Revenues:						
Charges for Services	$ 169,107	$ 165,460	$ 156,920	$ 133,431	$ 326,027	$ 298,891
Operating Grants and Contributions	198,736	186,381			198,736	186,381
Capital Grants and Contributions	49,577	57,891	36,987	23,188	86,564	81,079
General Revenues:						
Property Taxes	379,457	326,342			379,457	326,342
Other Taxes	341,976	327,990			341,976	327,990
Revenues from Utilities	304,545	257,687			304,545	257,687
Investment Earnings	39,463	54,027	12,010	11,099	51,473	65,126
Miscellaneous	30,299	26,530	12	1,973	30,311	28,503
Total Revenues	1,513,160	1,402,308	205,929	169,691	1,719,089	1,571,999
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	168,215	118,881			168,215	118,881
Public Safety	527,075	456,375			527,075	456,375
Public Works	191,518	143,172			191,518	143,172
Sanitation	3,000	2,878			3,000	2,878
Health Services	90,220	91,432			90,220	91,432
Culture and Recreation	141,661	128,450			141,661	128,450
Convention and Tourism	68,584	155,285			68,584	155,285
Conservation	1,068				1,068	
Urban Redevelopment and Housing	19,226	20,575			19,226	20,575
Welfare	168,461	153,704			168,461	153,704
Economic Development and Opportunity	17,329	19,167			17,329	19,167
Interest on Long-Term Debt, Net	71,103	48,114			71,103	48,114
Business-Type Activities:						
Airport System			80,505	64,482	80,505	64,482
Parking System			10,382	8,525	10,382	8,525
Environmental Services			82,002	68,072	82,002	68,072
Total Expenses	1,467,460	1,338,033	172,889	141,079	1,640,349	1,479,112
Change in Net Assets						
Before Transfers and Special Items	45,700	64,275	33,040	28,612	78,740	92,887
Special Items (1)	8,320		(8,320)			
Transfers	(5,184)	(6,404)	5,184	6,404		
Net Change in Net Assets	48,836	57,871	29,904	35,016	78,740	92,887
Beginning, Net Assets as restated	2,329,321	2,271,450	286,415	251,399	2,615,736	2,522,849
Ending, Net Assets	$ 2,378,157	$ 2,329,321	$ 316,319	$ 286,415	$ 2,694,476	$ 2,615,736

*Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.

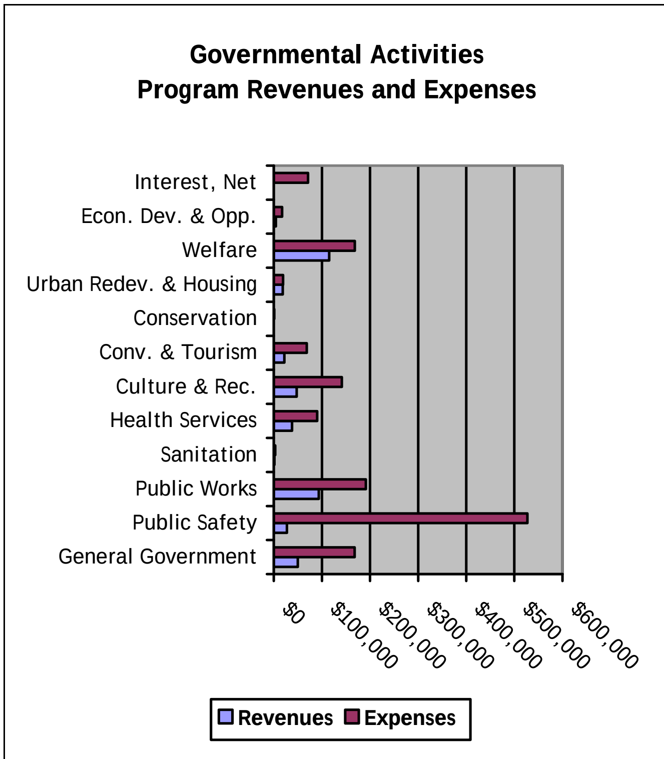
(1) Debt and capital project activity moved from governmental activities to business-type activities. See Note 1, Summary of Significant Accounting Policies, "Special Items" for more information.

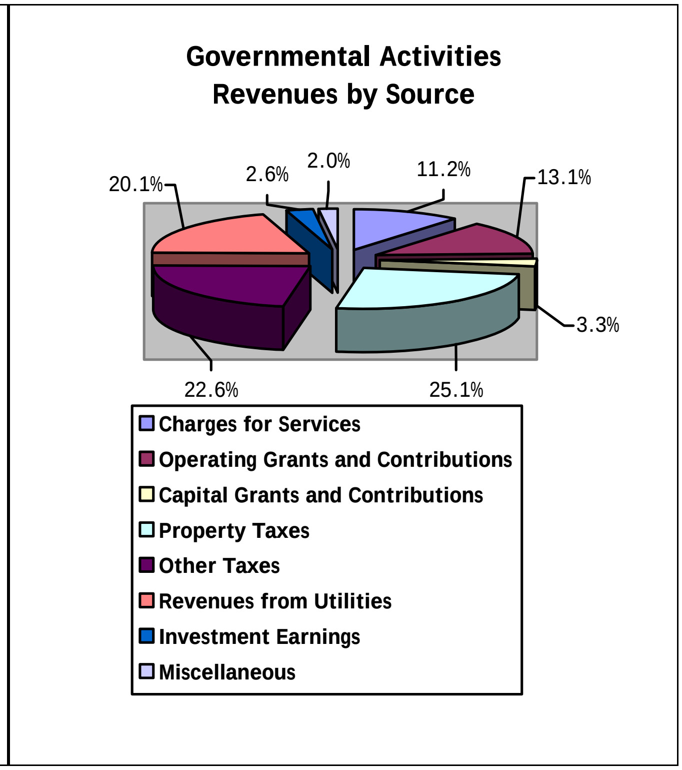
The City's total revenues were $1,719,089 for fiscal year-ended September 30, 2008. Revenues from governmental activities totaled $1,513,160 and revenues from business-type activities totaled $205,929. General revenues represented 64.4% of the City's total revenue, while program revenues provided 35.6% of revenue received in fiscal year 2008.

Expenses for the City totaled $1,640,349. Governmental activity expenses totaled $1,467,460, or 89.5% of total expenses.

City of San Antonio, Texas - 4 - Amounts are expressed in thousands

Governmental Activities





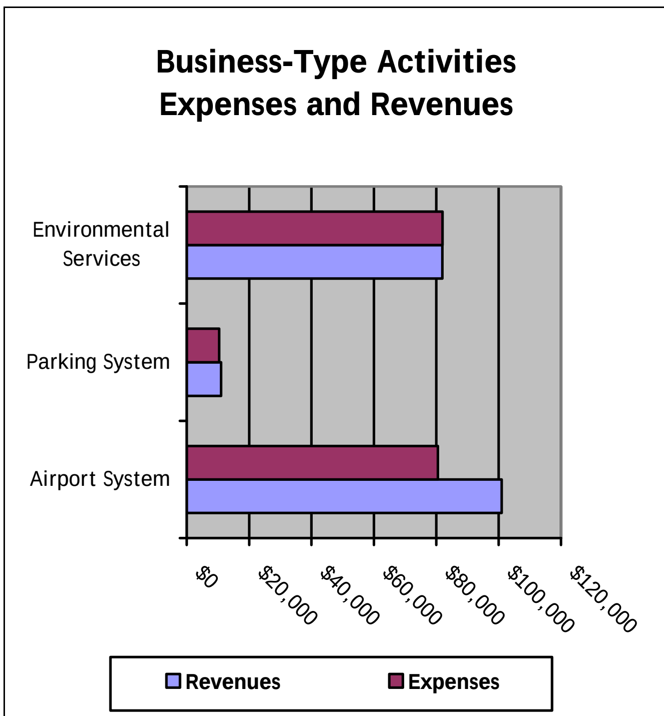
Governmental Activities increased the City's net assets by $48,836. The reason for the change is as follows:

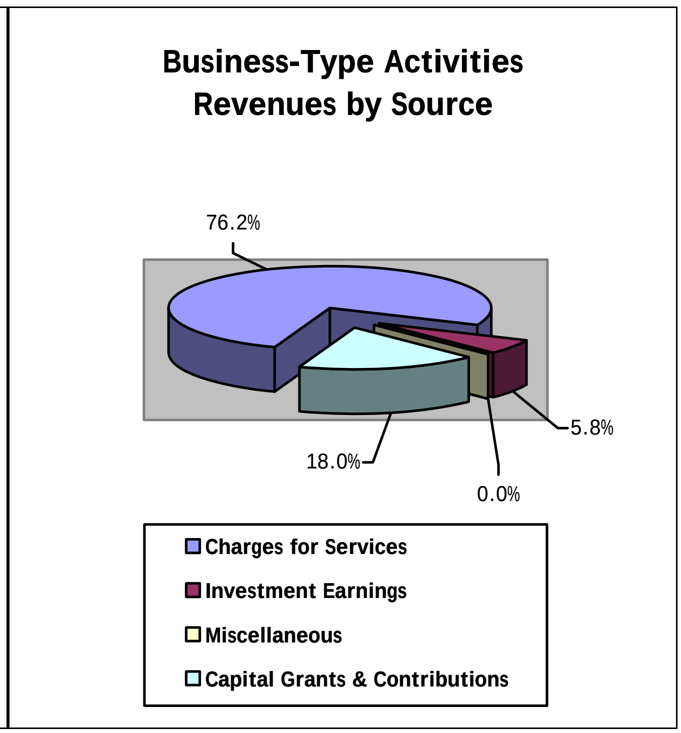
- Grants and Contributions revenues increased by $4,041 primarily due to $10,511 in hurricane activities recognized during the year, a one-time $6,081 increase in the Hotel Occupancy Tax from contributions from the State for the NCAA Men's Final Four, as well as the addition of a blended component unit, the San Antonio Library Foundation, which increased capital grants by $2,129. Additional project increases of $5,446 and $635 in Public Works and General Government, respectively, also assisted in the growth of revenues from grants and capital projects. These increases were mitigated primarily by a decrease in contributions of $15,678 in the Capital Projects funds for the Convention Center Hotel Corporation due to the project's completion of the Grand Hyatt Hotel.
- Revenues from Property Taxes increased by $53,115 due to an increase in the overall taxable value, increased collection, reappraisals, annexations and new construction. Even though tax rates were reduced from $0.58 to $0.57 per $100 valuation in fiscal year 2007 and 2008, respectively, taxable values increased from $56,767,701 in fiscal year 2007 to $65,954,867 in fiscal year 2008, resulting in additional revenues of $50,339 in current property taxes.
- Other Taxes, which includes sales and use taxes, increased $13,986, of which $8,272 of that increase was from sales and use tax due to continued growth, increased economic development throughout the City, and increased tourism. Hotel occupancy taxes also increased by $4,536 due to an increase in tourism and convention business.
- CPS Energy revenues increased by $45,256 due to higher natural gas prices and an increase in consumers. SAWS revenues also increased by $1,215 due to a drier summer season resulting in increased water usage and an overall increase in consumers causing an increase in Revenues from Utilities of $46,858.
- Investment Earnings decreased by $14,564 due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.

- An increase of $49,334 of General Government expenses is primarily attributed to Capital Project activity increasing by $28,709 due to a purchase of Right Away acquisitions for the Edwards Aquifer Land Acquisition and Parks Expansion and an increase of $1,456 due to an increase in projects initiated in fiscal year 2008 compared to fiscal year 2007. General Government activity saw an additional increase of $18,267 due to implementing GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*
- Public Safety expenses increased by $70,700 primarily due to an increase in personal services of $54,189 due to the hiring of 80 police officers and 96 firefighters during fiscal year 2008, and an increase in fuel costs of $3,436.
- Public Works expenses increased by $48,346 due to the increase in public works projects after the passage of the 2007 $550,000 bond initiative as well as an increase in the City's contractual street maintenance program.
- Culture and Recreation expenses increased by $13,211 due to increased personal services of $3,353 in the Convention and Visitors Facilities Fund; increased General Fund expenditures for the library and parks in the amount of $4,099 and $886, respectively. The library increase includes a $994 increase in charges for phone and computer services and an $830 increase in expenses for a new book identification and security system.
- Convention and Tourism expenses decreased by $86,701, primarily due to a decrease in expenses associated with the Grand Hyatt Hotel, which was completed in fiscal year 2008.
- Welfare expenses increased in fiscal year 2008 by $14,757 due to an increase of grant funded expenditures in fiscal year 2008 of $7,153 and an increase in the General Fund in personal services of $2,166 and other expenditures of $1,525 related mostly to fuel costs and direct welfare payments.
- Interest on Long-Term Debt, Net increased by $22,989 due to an increase in interest expense as a result of additional issuances obtained during 2008, as well as a modification to the effective interest calculation on the amortization of unamortized bond issuance costs, discounts and premiums.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $193,907, which is $37,288 higher than the previous fiscal year. The remaining revenues were a result of interest earnings and other miscellaneous items. Expenses for Business-Type Activities were $172,889 compared to prior year's expenses of $141,079.





Business-Type Activities increased the City's net assets by $29,904, primarily because of the following:

- Charges for Services increased $23,489 primarily because the Airport System experienced an increase in revenues in the amount of $10,829 as a result of increased concession and parking revenues, due to continued growth in passenger travel through San Antonio International Airport and the Airport's construction and opening of a new parking garage in fiscal year 2008 to keep up with that growth. Environmental Services revenues also increased by $11,908 due to an increase in customers served as well as a fee increase to cover costs of the automated conversion of trucks, new waste containers and solid waste services.
- A $13,799 increase in Capital Grants and Contributions in the Airport System was primarily attributed to a $9,144 increase in reimbursement from grant funded capital projects due to the Airport's ongoing expansion project, as well as an increase of $4,717 in passenger facility charge revenues due to increased passenger travel at San Antonio International.
- While yield amounts are lower than the prior year, Investment Earnings increased by $911 due to larger cash balances maintained in the funds as a result of operations and bond sales that took place in fiscal year 2008.
- Airport System expenses increased by $16,023 primarily due to increased personnel costs and contractual services associated with the growth of both San Antonio International and Stinson Airports.
- Parking System expenses increased by $1,857, which is a result of higher personnel costs and increase repair and maintenance costs of parking facilities and assets.
- Environmental Services expenses increased by $13,930, due to additional expenses associated with the ongoing implementation of the automated garbage collection services, which are scheduled to be completed in fiscal year 2010.

Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Fund is used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations. The Capital Projects Funds are used to account for financial activity related to the City indebtedness for Capital Projects, other agency contributions and the operating activities of those projects.

Revenues from taxes increased by $67,101, which is primarily attributable to: (1) a $27,618 or 13.5% increase in property tax and related penalties and interest revenues in the General Fund, (2) a $6,957 or 3.6% increase in sales and use tax revenues in the General Fund, (3) a $17,992 or 15.1% increase in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $4,521 or 7.1% increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $3,560 or 73.4% increase in property tax revenue in the Tax Increment Reinvestment Zone Fund. The increases in property taxes are a result of increased property valuation, increased collections, new construction, and annexation; while the increase in sales and use taxes and occupancy taxes are a result of continued growth and room capacity, as well as expanded tourism and convention business.

The total fund balance of the General Fund at year-end was $205,548, an increase of $45,251 from the total restated fund balance of $160,297 in fiscal year 2007. The total unreserved General Fund balance for fiscal year 2008 is $190,775, which represents $82,994 in designated and $107,781 in undesignated fund balances. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the close of the fiscal year, increased by $26,876 from the previous year's restated balance. In addition, the City's financial reserves were increased $20,050 in fiscal year 2008. This reserve, which is recorded in the designated unreserved balance, will be utilized for unforeseen operational or capital requirements, extraordinary occurrences such as natural disasters or other similar events, to assist the City in managing fluctuations in available General Fund resources and to stabilize the budget.

The total fund balance of the Debt Service Fund at year-end was $105,948, an increase of $3,642 from the total fund balance of $102,306 in fiscal year 2007. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $7,873. The City engaged in a grant reconciliation effort that began in fiscal year 2006 and continued into fiscal year 2008. The City's departmental fiscal staff was required to validate data in the City's financial system relating to grants. With this effort, the City determined that it spent dollars in excess of the grant allocations while providing more services to the community. These deficits have been incorporated into the City's annual budget process and are scheduled to be funded over the next four years from general revenues.

General Fund Budgetary Highlights

Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 95,325	$ 113,531	$ 84,270
Public Safety	463,611	467,555	456,687
Public Works	11,290	11,301	11,477
Health Services	63,178	63,908	65,892
Sanitation	3,113	3,465	3,446
Welfare	44,136	47,962	46,712
Culture and Recreation	76,202	77,095	74,574
Economic Development and Opportunity	3,561	3,707	3,143
Transfers to Other Funds	92,143	95,290	95,755
Total	$ 852,559	$ 883,814	$ 841,956

Changes in original budget appropriations to the final amended budget appropriations were a $31,255 increase in appropriations. This increase can be summarized by the following discussion:

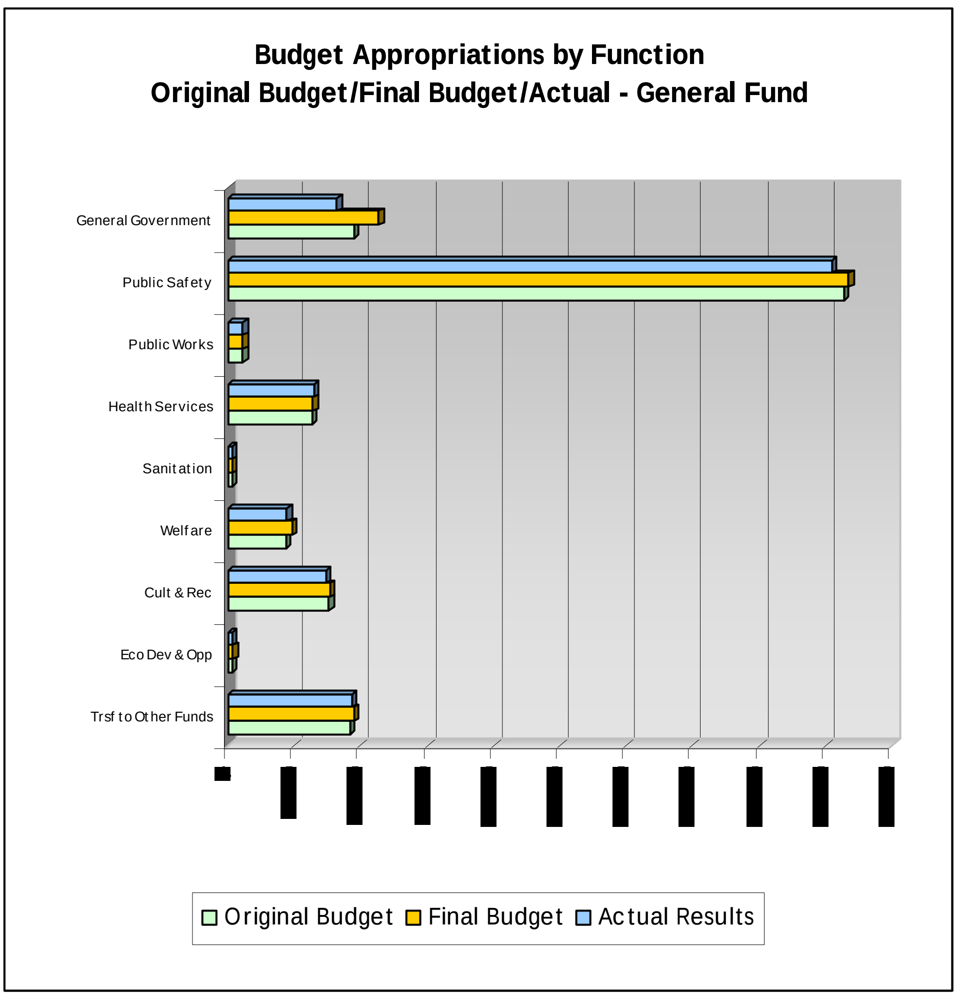
- General Government has an $18,206 increase composed of $12,650 of budget carryforwards and a $5,556 increase in budget. Of the $12,650 of budget carryforwards, $10,769 is nondepartmental and one time projects carryforwards while the remainder is carryforwards for other departments. The $5,556 budget increase is made up increases in special projects and nondepartmental appropriations of $4,645, other budget increases and decreases in various departments resulting in a net budget increase of $9,532, less the recovery of indirect costs from applicable program activities.
- Of the $3,944 increase in Public Safety, $750 is due to budget carryforwards and $3,194 to budget increases. The $3,194 in budget increases is primarily due to an increase in personal services within the Police Department of $1,210 and within Fire of $1,140.
- Of the $3,826 increase in Welfare, $3,516 is due to budget carryforwards and $310 is due to a budget increase. Because much of the Welfare budget is spent on contracts with cost reimbursement payments, a larger percentage of the budget is encumbered at year-end than other program activities.
- The $3,147 increase in transfers is due to $1,294 in budget carryforwards and $1,853 in new appropriations. The majority of the new appropriations come from the transfer of $2,000 from the designated reserve loss fund's balance to the streets Endowment Reserve Fund, to properly track the interest earnings on that $2,000 for street endowment while the $2,000 corpus is retained in the total loss fund's balance.

City of San Antonio, Texas - 8 - Amounts are expressed in thousands

Final budgeted appropriations for the General Fund were $883,814, while actual expenditures were $841,956 creating a positive variance of $41,858. Significant variances are as follows:

- General Government had a $29,261 positive variance, which is due to the fact that indirect costs charged and recovered from other departments are netted against actual related expenditures. These indirect cost's recoveries ($8,621 in fiscal year 2008) were not included in the budget. The City budgeted the annual cost of living adjustment in the General Government function while actual payouts were charged to both General Government and Public Safety in line with the City's personnel components. Salary reserves represented $10,585 in fiscal year 2008. Public Safety typically receives 70% of the total estimate.
- Public Safety had a $10,868 positive variance, which is primarily due a reduction of expenses in the amount of $5,977 for a rebate of flexible benefit contributions made to the City's self insurance funds. Also, reimbursement of various expenditures were recognized for Hurricanes Dolly and Ike for $1,569.
- Health Services had a $1,984 negative variance, which is primarily due to higher than budgeted personal services expenditures associated with keeping personnel to complete the transition of clinics to University Health, which took longer than expected.
- Welfare had a $1,250 positive variance, which is primarily due to $1,170 of carried forward expenditures for contractual services and direct welfare payments to cost reimbursement contracts.
- Culture and Recreation had a $2,521 positive variance, which is due to $1,494 in contractual services savings for parks due to a carry forward of a five year maintenance and renovation program for Casiano, Martinez and Harlandale parks.

The following charts provide a comparison of the City's budget appropriations.



Financial Analysis of Proprietary Funds

Activities of the Primary Government's Airport System, Parking System, and Environmental Services Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. The Parking System handles operations of the City's parking garages and lots. The Environmental Services handles trash collection operations and the activities of the City's landfills. Financial analysis for the proprietary funds is on the same basis as the business-type activities. See further analysis on the funds' operations at pages 6 and 7.

Capital Assets

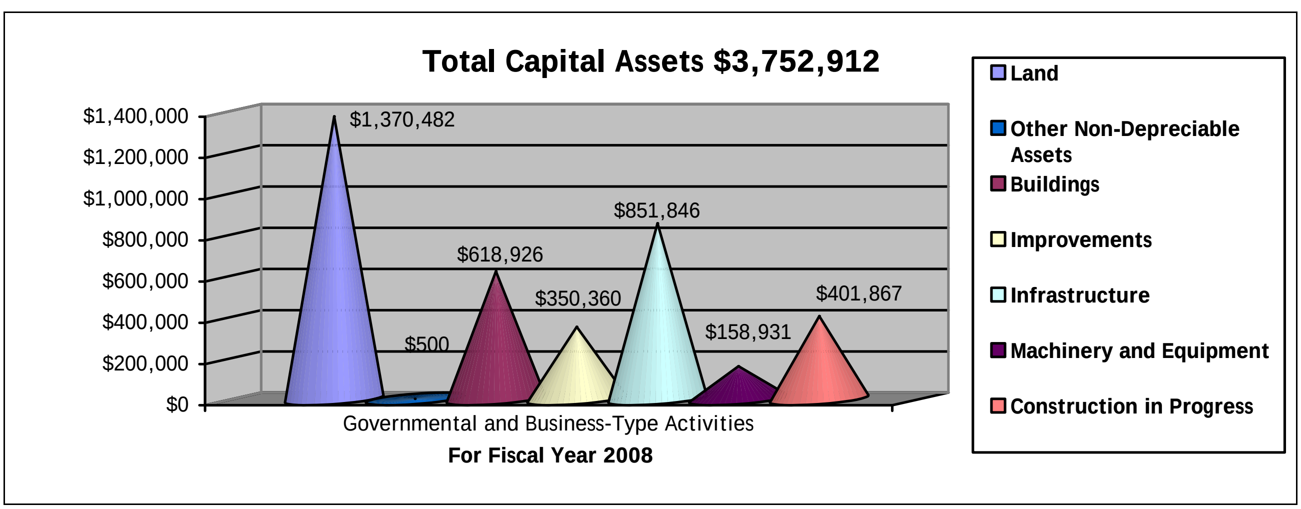
The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008 amounts to $3,752,912 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was $209,865, which comprises of a $137,393 increase in governmental activities and a $72,472 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007 (Restated) *	2008	2007	2008	2007 (Restated)
Land	$ 1,356,141	$ 1,341,567	$ 14,341	$ 13,561	$ 1,370,482	$ 1,355,128
Other Non-Depreciable Assets	500				500	
Buildings	472,703	449,071	146,223	99,009	618,926	548,080
Improvements	222,640	176,453	127,720	129,614	350,360	306,067
Infrastructure	851,846	861,586			851,846	861,586
Machinery and Equipment	151,335	155,322	7,596	4,678	158,931	160,000
Construction in Progress	280,414	214,187	121,453	97,999	401,867	312,186
Total	$ 3,335,579	$ 3,198,186	$ 417,333	$ 344,861	$ 3,752,912	$ 3,543,047

*Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.

During fiscal year 2008, the City transferred $200,325 of construction in progress to depreciable asset classes for various completed projects of buildings, improvements, and infrastructure.

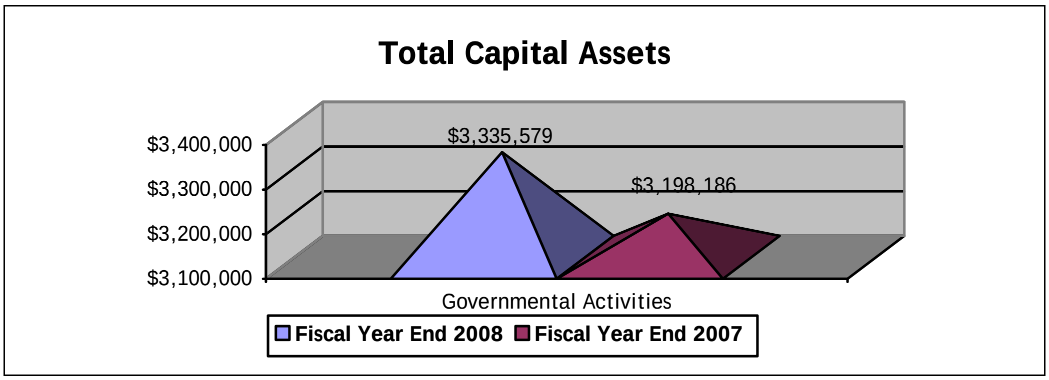
The following schedule provides a summary of the City's capital assets:

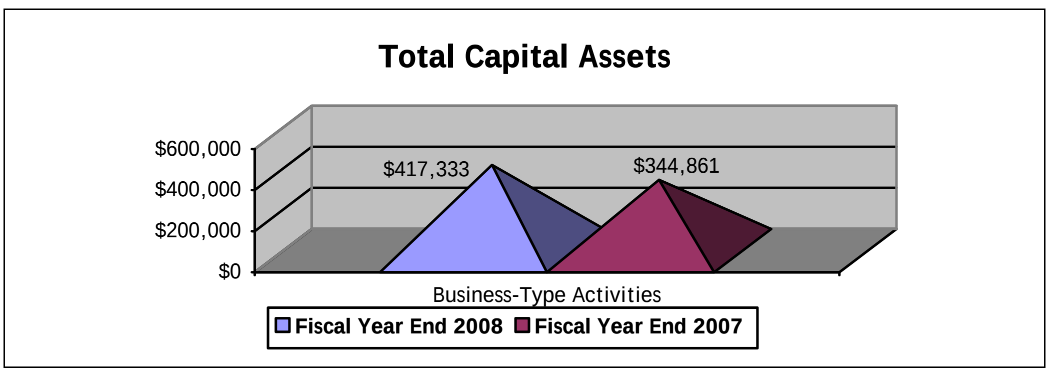


City of San Antonio, Texas - 10 - Amounts are expressed in thousands

Change in Capital Assets September 30, 2008	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 5,038,066	$ 521,735	$ 5,559,801
Additions	254,028	84,543	338,571
Deletions	(11,991)	(779)	(12,770)
Accumulated Depreciation	(1,944,524)	(188,166)	(2,132,690)
Ending Balance	$ 3,335,579	$ 417,333	$ 3,752,912

The following charts provide a summary of the ending balances of capital assets for both the current and prior fiscal years:





Additional information on the City's capital assets can be found in Note 4, Capital Assets.

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $2,041,332 in bonds, certificates, tax notes and commercial paper outstanding, an increase of 15.2% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt and Note 7, Commercial Paper Programs.

City of San Antonio, Texas - 11 - Amounts are expressed in thousands

City of San Antonio's Outstanding Debt September 30, 2008 and 2007		
	Governmental Activities	
	2008	**2007**
Bonds Payable:		
General Obligation Bonds	$ 717,275	$ 667,280
Tax-Exempt Certificates of Obligation	291,380	218,185
Taxable Certificates of Obligation	225	290
Tax Notes	17,925	60,000
Commercial Paper	10,500	4,000
Revenue Bonds	578,412	554,372
Capital Appreciation Bonds (CAB)	17,620	16,497
Total	$ 1,633,337	$ 1,520,624
	Business-Type Activities	
	2008	**2007**
Bonds Payable:		
General Obligation Bonds	$ 9,495	$ -
Tax-Exempt Certificates of Obligation	2,805	
Revenue Bonds	395,695	251,370
Total	$ 407,995	$ 251,370

Governmental Activities

In 2008, the City issued additional indebtedness for a total of $388,245. The $388,245 was composed of $121,220 in general obligation bonds, $104,255 in certificates of obligations, $21,270 in tax notes, $135,000 in revenue bonds, and $6,500 in commercial paper.

The general obligation bonds will be utilized to refund a portion of the City's outstanding tax supported debt, and to fund various capital improvement projects. The certificates of obligations will be utilized for such capital projects to improve existing municipal facilities (to include libraries, golf courses, and parks), constructing the new Haven for Hope Homeless Campus, acquiring the Mission Drive In Theatre land for open space and other projects related to public safety, drainage, streets, and flood control.

In December 2007, the City issued $21,270 in tax anticipation notes that will be will be used to fund technology improvements for various City-owned systems and improvements to the City's infrastructure improvements at Brooks City-Base.

Additionally in July 2008, the City issued $135,000 of Hotel Occupancy Tax (HOT) Revenue Refunding Bonds; the proceeds will be used to refund a portion of the City's outstanding debt and for renovation to the Lila Cockrell Theatre as well as other expansion-related improvements.

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2008, $10,500 of Commercial Paper Notes are outstanding.

Business-Type Activities

On December 14, 2007, the City issued $82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued $74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects.

In fiscal year 2008 the Environmental Services Fund received proceeds from the Combination Tax and Revenue Certificates of Obligation, Series 2007, in the amount of $2,500. These proceeds will be utilized to provide a Compress Natural Gas fueling facility at the City's Northeast Service Center, and to repair a slope failure at Pearsall Landfill.

City of San Antonio, Texas - 12 - Amounts are expressed in thousands

In fiscal year 2008 several transactions were initiated transferring debt issued for proprietary fund projects from governmental funds to proprietary funds. When the debt relating to 2006 Certificates of Obligations, 2004A Refunding General Obligations, and 2007 Tax Notes (which were subsequently refunded with 2006 General Obligations) were initially recorded, proceeds, bonds payable, and additional bond costs (premiums, discounts, cost of issuances) were recorded in the governmental funds. Therefore, all self supporting enterprise debt was moved from governmental funds into their respective enterprise fund, along with any capital projects currently under construction and remaining unspent bond proceeds. As a result, $9,685 of outstanding debt was transferred into the Parking System Fund from the Debt Service Fund and a total of $1,360 of debt was transferred into the Environmental Services Fund from Capital Project Funds. See Note 6, Long-Term Debt for additional information on the transferring of debt obligations.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2008 are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AA+	Aa1	AA+
Hotel Occupancy Tax Bonds (Long Term)	A+	A1	A
Hotel Occupancy Tax Bonds (Short Term)	AAA/A-1+	Aaa/VMIG1	AA+/F1+
Hotel Occupancy Tax Notes	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A
Parking System	A+	A2	A+
Municipal Drainage Utility System Revenue Bonds	AA-	A1	A+
Sales Tax Revenue Commercial Paper	A-1+	P-1	F1+

Standard & Poor's elevated the City's General Obligation/Certificates of Obligation/Tax Notes rating in October 2008 to AAA.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total assessed valuation for the fiscal year-ended 2008 was $76,465,984, which provides a debt ceiling of $7,646,598.

Currently Known Facts

The City processed numerous debt issuances after fiscal year-end. In November 2008, the City issued $10,120 in Taxable General Improvement Refunding Bonds, Series 2008. In December 2008, the City issued $75,060 of General Improvement Bonds, Series 2008, $85,005 in Combination Tax and Revenue Certificates of Obligation, Series 2008, and $15,320 in Tax Notes, Series 2008.

On November 25, 2008, the City engaged in a real estate exchange transaction with Hixon Properties, Inc. The City sold the River Bend Parking Garage property valued at $22,400 for other downtown property valued at $15,500 and cash proceeds of $6,900, less related closing fees. This new property will be used to construct a new Public Safety Headquarters, which will serve as a downtown headquarters for both the Fire and Police Departments.

For more information on these items, please see Note 18, Subsequent Events.

Requests for Information

This financial report is designed to provide a general overview of the City's position for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

City of San Antonio, Texas - 13 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on State Grants "Single Audit Report"

Year-Ended September 30, 2008

City of San Antonio, Texas

Basic Financial Statements

Statement of Net Assets

As of September 30, 2008

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Cash and Cash Equivalents	$ 22,259	$ 3,249	$ 25,508	$ 198,854
Cash Collateral from Securities Lending				400,306
Investments	364,125	38,447	402,572	414,417
Receivables, Net	100,622	12,124	112,746	267,639
Due from:				
Fiduciary Funds	442		442	
Other Governmental Agencies	3,126		3,126	3,313
Internal Balances	(6,899)	6,899		
Materials and Supplies, at Cost	6,195	825	7,020	157,989
Prepaid Expenses	1,350	22	1,372	80,016
Other Assets				719
Deposits	213	50	263	
Restricted Assets:				
Cash and Cash Equivalents	66,417	21,667	88,084	114,008
Investments	551,777	268,142	819,919	1,447,713
Receivables, Net	80,841	2,025	82,866	22,084
Prepaid Expenses	22		22	
Deposits	261		261	
Deferred Charges				6,268
Due from:				
Other Governmental Agencies	7,906		7,906	
Prepaid Expenses				627,470
Capital Assets:				
Non Depreciable	1,637,055	135,794	1,772,849	1,476,018
Depreciable, Net	1,698,524	281,539	1,980,063	7,297,421
Assets Held for Resale				3,283
Prepaid Rent Long Term - Leaseback				456,813
Net OPEB Asset				30,218
Other Noncurrent Assets				37,792
Unamortized Bond Issuance Costs	25,371	5,545	30,916	17,286
Total Assets	4,559,607	776,328	5,335,935	13,059,627
Liabilities:				
Accounts Payable and Other Current Liabilities	105,002	11,438	116,440	461,753
Unearned Revenue	11,688	1,136	12,824	1,959
Securities Lending Obligation				400,306
Accrued Interest		15	15	
Due to:				
Other Governmental Agencies	729		729	2,158
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	65,789	7,285	73,074	16,740
Unearned Revenue	25,955		25,955	
Accrued Interest	13,249	5,105	18,354	8,994
Due to:				
Other Governmental Agencies	3,654		3,654	
Noncurrent Liabilities:				
Due Within One Year	153,105	19,865	172,970	235,989
Due in More Than One Year	1,802,279	415,165	2,217,444	7,128,149
Total Liabilities	2,181,450	460,009	2,641,459	8,256,048
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,092,623	208,894	2,301,517	3,767,039
Restricted for:				
Debt Service	116,771	33,790	150,561	24,569
Capital Projects		42,388	42,388	2,953
Renewal and Replacement				506,835
Perpetual Care:				
Expendable	1,000		1,000	
Nonexpendable	4,766		4,766	
Unrestricted	162,997	31,247	194,244	502,183
Total Net Assets	$ 2,378,157	$ 316,319	$ 2,694,476	$ 4,803,579

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities

Year-Ended September 30, 2008

(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	$ 168,215	$ 45,757	$ 1,637	$ 2,572
Public Safety	527,075	9,536	16,757	928
Public Works	191,518	46,970	21,480	25,123
Sanitation	3,000	5	986	233
Health Services	90,220	22,792	14,918	159
Culture and Recreation	141,661	40,549	5,725	1,218
Convention and Tourism	68,584	1,278	1,524	19,003
Conservation	1,068			
Urban Redevelopment and Housing	19,226	2	18,199	274
Welfare	168,461	192	115,049	67
Economic Development and Opportunity	17,329	2,026	2,461	
Amortization of Issuance Cost	7,266			
Amortization of Bond (Premium)/Discount	(24,475)			
Amortization of Refunding Charges	9,645			
Interest on Long-Term Debt	78,667			
Total Governmental Activities	1,467,460	169,107	198,736	49,577
Business-Type Activities:				
Airport System	80,505	63,944		36,987
Parking System	10,382	10,988		
Environmental Services	82,002	81,988		
Total Business-Type Activities	172,889	156,920		36,987
Total Primary Government	$ 1,640,349	$ 326,027	$ 198,736	$ 86,564
Discretely Presented Component Units:				
CPS Energy	1,904,053	1,860,677		58,390
San Antonio Water System	341,626	330,337		139,764
Brooks Development Authority	18,830	24,988		5,294
City South Management Authority	244			
Main Plaza Conservancy	522	11	736	
Municipal Golf Association - San Antonio	2,448	2,516		
Port Authority of San Antonio	32,017	44,578		(540)
SA Energy Acquisition Corporation	39,684	39,372		
San Antonio Development Agency	492	370	131	
San Antonio Education Facilities Corporation	2	20		
San Antonio Housing Trust Foundation, Inc.	1,391	8		1,066
San Antonio Local Development Company	1,234	425		369
Westside Development Corporation	253			
Total Component Units	$ 2,342,796	$ 2,303,302	$ 867	$ 204,343

General Revenues:
Taxes:
Property
General Sales and Use
Selective Sales and Use
Gross Receipts Business
Occupancy
Penalties and Interest on Delinquent Taxes
Revenues from Utilities
Investment Earnings
Miscellaneous
Adjustment for STP Pension Cost
Special Items
Transfers, net

Total General Revenues, Special Items, and Transfers

Change in Net Assets
Net Assets - Beginning of Fiscal Year, as restated

Net Assets - End of Fiscal Year

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities
Year-Ended September 30, 2008
(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (118,249)	$ -	$ (118,249)	$ -
(499,854)		(499,854)	
(97,945)		(97,945)	
(1,776)		(1,776)	
(52,351)		(52,351)	
(94,169)		(94,169)	
(46,779)		(46,779)	
(1,068)		(1,068)	
(751)		(751)	
(53,153)		(53,153)	
(12,842)		(12,842)	
(7,266)		(7,266)	
24,475		24,475	
(9,645)		(9,645)	
(78,667)		(78,667)	
(1,050,040)		(1,050,040)	
	20,426	20,426	
	606	606	
	(14)	(14)	
	21,018	21,018	
(1,050,040)	21,018	(1,029,022)	
			15,014
			128,475
			11,452
			(244)
			225
			68
			12,021
			(312)
			9
			18
			(317)
			(440)
			(253)
			165,716
379,457		379,457	
232,348		232,348	
5,712		5,712	
31,705		31,705	
68,414		68,414	
3,797		3,797	
304,545		304,545	
39,463	12,010	51,473	142,652
30,299	12	30,311	913
			(21,174)
8,320	(8,320)		
(5,184)	5,184		
1,098,876	8,886	1,107,762	122,391
48,836	29,904	78,740	288,107
2,329,321	286,415	2,615,736	4,515,472
$ 2,378,157	$ 316,319	$ 2,694,476	$ 4,803,579

The accompanying notes are an integral part of these basic financial statements.

Balance Sheet
Governmental Funds
As of September 30, 2008
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Cash and Cash Equivalents	$ 5,602	$ -	$ -	$ 11,788	$ 17,390
Investments	118,610			130,934	249,544
Receivables, Net	86,658			10,530	97,188
Prepaid Expenditures	18			384	402
Due from:					
Other Funds	37,881			834	38,715
Other Governmental Agencies	2,010			1,037	3,047
Materials and Supplies, at Cost	4,326			415	4,741
Deposits				75	75
Restricted Assets:					
Cash and Cash Equivalents		20,503	268	45,646	66,417
Investments		85,502		466,275	551,777
Receivables, Net		6,609	50,432	23,800	80,841
Prepaid Expenditures				22	22
Deposits				261	261
Due from:					
Other Funds		855	2,242	46,657	49,754
Other Governmental Agencies				7,906	7,906
Total Assets	$ 255,105	$ 113,469	$ 52,942	$ 746,564	$ 1,168,080
Liabilities and Fund Balances:					
Liabilities:					
Vouchers Payable	$ 5,673	$ -	$ -	$ 4,647	$ 10,320
Accounts Payable - Other	6,821			9,962	16,783
Accrued Payroll	14,279			3,091	17,370
Accrued Leave Payable	8,422			605	9,027
Unearned Revenue	10,123				10,123
Due To:					
Other Funds	4,239			14,278	18,517
Other Governmental Agencies				18	18
Restricted Liabilities:					
Vouchers Payable			4,197	23,012	27,209
Accounts Payable - Other		189	9,363	25,552	35,104
Accrued Payroll			808	239	1,047
Accrued Leave Payable				5	5
Unearned Revenues		5,189	11,660	14,295	31,144
Amounts Held in Trust				2,429	2,429
Due to:					
Other Funds		2,143	34,235	44,252	80,630
Other Governmental Agencies			552	3,102	3,654
Total Liabilities	49,557	7,521	60,815	145,487	263,380
Fund Balances:					
Reserved:					
Reserved for Encumbrances	10,429			303,918	314,347
Reserved for Deposits				336	336
Reserved for Materials and Supplies	4,326			415	4,741
Reserved for Prepaid Expenditures	18			406	424
Reserved for Debt Service		105,948			105,948
Unreserved:					
Designated: General Fund	82,994				82,994
Designated: Special Revenue Funds				3,487	3,487
Designated: Permanent Funds				5,018	5,018
Undesignated: Major Funds	107,781		(7,873)		99,908
Undesignated: Special Revenue Funds				167,810	167,810
Undesignated: Capital Projects Funds				109,004	109,004
Undesignated: Permanent Funds				10,683	10,683
Total Fund Balances	205,548	105,948	(7,873)	601,077	904,700
Total Liabilities and Fund Balances	$ 255,105	$ 113,469	$ 52,942	$ 746,564	$ 1,168,080

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of September 30, 2008
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 904,700
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,356,141	
Other Non-Depreciable Assets	500	
Construction In Progress	280,414	
Buildings	710,707	
Improvements	295,314	
Infrastructure	2,291,681	
Machinery and Equipment	194,834	
Less: Accumulated Depreciation	(1,848,546)	
Total Governmental Capital Assets		3,281,045
Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds (See Note 14).		3,647
Long-term receivables applicable in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		1,565
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.		116,456
Long-term liabilities are not due and payable in the current period, neither are associated unamortized assets available financial resources and, therefore, are not reported in the governmental funds.		
Governmental Bonds Payable	(1,622,837)	
Commercial Paper Payable	(10,500)	
Unamortized Discount/(Premium) on Bonds, Net	(39,991)	
Deferred Amount on Refunding	10,287	
Leases Payable	(12,381)	
Notes Payable	(54,958)	
Other Payables	(2,315)	
Unamortized Bond Issuance Costs	25,371	
Net OPEB Obligation	(16,171)	
Accrued Interest	(13,249)	
Arbitrage Rebate	(501)	
Compensated Absences	(192,011)	
		(1,929,256)
Net Assets of Governmental Activities		$ 2,378,157

The accompanying notes are an integral part of these basic financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year-Ended September 30, 2008
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property	$ 232,493	$ 136,090	$ -	$ 8,301	$ 376,884
General Sales and Use	196,306			36,042	232,348
Selective Sales and Use	5,712				5,712
Gross Receipts Business	31,705				31,705
Occupancy				68,414	68,414
Penalties and Interest on Delinquent Taxes	2,279	1,327		191	3,797
Licenses and Permits	7,756				7,756
Intergovernmental	6,468		161,725	53,750	221,943
Revenues from Utilities	304,158				304,158
Charges for Services	43,010		831	105,140	148,981
Fines and Forfeits	12,249				12,249
Miscellaneous	10,982	384	2,622	15,483	29,471
Investment Earnings	4,940	6,430	62	23,980	35,412
Contributions				15,053	15,053
In-Kind Contributions			15,091	1,131	16,222
Total Revenues	858,058	144,231	180,331	327,485	1,510,105
Expenditures:					
Current:					
General Government	81,880	698	1,615	33,660	117,853
Public Safety	454,466		16,679	1,759	472,904
Public Works	11,477		26,311	83,235	121,023
Health Services	65,049		17,217	7,820	90,086
Sanitation	3,301		1,071		4,372
Welfare	44,547		121,301	415	166,263
Culture and Recreation	74,031		2,144	56,575	132,750
Convention and Tourism				20,053	20,053
Urban Redevelopment and Housing			1,009	18,999	20,008
Economic Development and Opportunity	3,046		380	11,211	14,637
Capital Projects				319,663	319,663
Debt Service:					
Principal Retirement		97,485		1,900	99,385
Interest		62,170		15,101	77,271
Other					
Issuance Costs		1,071		1,396	2,467
Total Expenditures	737,797	161,424	187,727	571,787	1,658,735
Excess (Deficiency) of Revenues Over (Under) Expenditures	120,261	(17,193)	(7,396)	(244,302)	(148,630)
Other Financing Sources (Uses):					
Issuance of Long-Term Debt		164,865		216,880	381,745
Payments to Refunded Bond Escrow Agent		(170,737)			(170,737)
Issuance of Notes and Loans				2,799	2,799
Issuance of Commercial Paper				6,500	6,500
Premium/(Discount) on Long-Term Debt		3,267		8,747	12,014
Release of Enterprise Fund Obligations		9,645			9,645
Debt Transfer to Enterprise Funds		(9,645)		(1,400)	(11,045)
Transfers In	18,720	25,066	10,397	287,044	341,227
Transfers Out	(93,730)	(1,626)	(370)	(252,414)	(348,140)
Total Other Financing Sources (Uses)	(75,010)	20,835	10,027	268,156	224,008
Net Change in Fund Balances	45,251	3,642	2,631	23,854	75,378
Fund Balances, October 1, as restated	160,297	102,306	(10,504)	577,223	829,322
Fund Balances, September 30	$ 205,548	$ 105,948	$ (7,873)	$ 601,077	$ 904,700

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year-Ended September 30, 2008

(In Thousands)

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

Net change in Fund Balances - Total Governmental Funds		$ 75,378
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for Capital Assets	234,213	
Less: Current Year Depreciation	(96,900)	
Less: Current Year Deletions	(3,943)	133,370
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(3,120)
The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond, Note and Loan Amounts Issued	(391,044)	
Premium, Discount and Deferred Charges	(12,014)	
Bond Issuance Costs	2,467	
Payments to Escrow Agent	170,737	
Amortization of Bond Premiums and Discounts, and Deferred Charges, Net	5,944	
Debt Transfer to Enterprise Funds	1,400	
Note Payments	20	
Principal Payments	99,365	(123,125)
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 (See Note 14).		(49,374)
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		15,707
Change in Net Assets of Governmental Activities		$ 48,836

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Assets
Proprietary Funds
As of September 30, 2008
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 918	$ 2,331	$ 3,249	$ 4,869
Investments	19,710	18,737	38,447	114,581
Receivables, Net:				
Other Accounts	3,096	80	3,176	960
Accrued Interest	139	145	284	907
Accrued Revenue	1,905	6,759	8,664	2
Due from:				
Other Funds	112	16,399	16,511	5,400
Other Governmental Agencies, Net				79
Materials and Supplies, at Cost	590	235	825	1,454
Prepaid Expenses	22		22	948
Deposits		50	50	138
Total Unrestricted Assets	26,492	44,736	71,228	129,338
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	9,020	1,384	10,404	
Investments	24,303	1,540	25,843	
Receivables-Accrued Interest	152	14	166	
Due From Other Funds	998	3,602	4,600	
Construction Accounts:				
Cash and Cash Equivalents	8,471	567	9,038	
Investments	185,031	8,647	193,678	
Receivables-Accrued Interest	1,480	68	1,548	
Due From Other Funds		2,219	2,219	
Other Restricted Assets:				
Cash and Cash Equivalents	194		194	
Investments	4,247		4,247	
Receivables-Accrued Interest	21		21	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	1,761	270	2,031	
Investments	38,472	5,902	44,374	
Receivables-Accrued Interest	272	18	290	
Due From Other Funds	8,825		8,825	
Total Restricted Assets	283,247	24,231	307,478	
Total Current Assets	309,739	68,967	378,706	129,338
Noncurrent Assets:				
Capital Assets:				
Land	5,323	9,018	14,341	
Buildings	195,802	30,362	226,164	178
Improvements	213,246	8,214	221,460	530
Machinery and Equipment	11,578	10,503	22,081	149,804
Construction in Progress	120,184	1,269	121,453	
Total Capital Assets	546,133	59,366	605,499	150,512
Less: Accumulated Depreciation	170,066	18,100	188,166	95,978
Net Capital Assets	376,067	41,266	417,333	54,534
Unamortized Bond Issuance Costs	4,946	599	5,545	
Total Noncurrent Assets	381,013	41,865	422,878	54,534
Total Assets	$ 690,752	$ 110,832	$ 801,584	$ 183,872

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Assets
Proprietary Funds
As of September 30, 2008
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Vouchers Payable	$ 574	$ 1,114	$ 1,688	$ 4,714
Accounts Payable-Other	5,830	1,997	7,827	3,154
Claims Payable				51,267
Accrued Payroll	871	1,052	1,923	1,394
Current Portion of Accrued Leave Payable	356	333	689	429
Unearned Revenue	1,136		1,136	23
Accrued Interest		15	15	
Current Portion of Lease Purchase				180
Due to Other Funds	3,060	12,040	15,100	1,805
Total Payable from Current Unrestricted Assets	11,827	16,551	28,378	62,966
Payable from Restricted Assets:				
Vouchers Payable	7,220	65	7,285	
Accrued Bond Interest	4,919	186	5,105	
Current Portion of Bonds	13,200	2,075	15,275	
Due to Other Funds	6,968	2,562	9,530	
Current Portion of Unamortized Premium/(Discount)	319	(14)	305	
Current Portion of Deferred Amount on Refunding	(559)	(24)	(583)	
Current Portion of Lease Purchase		3,887	3,887	
Current Portion of Accrued Landfill Postclosure Costs		275	275	
Other Payables	14	3	17	
Total Payable from Restricted Assets	32,081	9,015	41,096	
Total Current Liabilities	43,908	25,566	69,474	62,966
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	360,380	21,015	381,395	
General Obligation Bonds and Certificates (Net of Current Portion)		11,325	11,325	
Unamortized Premium/(Discount) (Net of Current Portion)	4,906	40	4,946	
Deferred Amount on Refunding (Net of Current Portion)	(2,155)	(215)	(2,370)	
Accrued Leave Payable (Net of Current Portion)	1,778	1,666	3,444	2,145
Lease Purchase (Net of Current Portion)		11,059	11,059	124
Net OPEB Obligation	1,546	2,059	3,605	2,096
Due to Other Governmental Agencies				711
Accrued Landfill Postclosure Costs (Net of Current Portion)		1,761	1,761	
Total Noncurrent Liabilities	366,455	48,710	415,165	5,076
Total Liabilities	410,363	74,276	484,639	68,042
Net Assets:				
Invested In Capital Assets, Net of Related Debt	198,423	10,471	208,894	54,230
Restricted:				
Debt Service	29,373	4,417	33,790	
Capital Projects	40,345	2,043	42,388	
Unrestricted	12,248	19,625	31,873	61,600
Total Net Assets	$ 280,389	$ 36,556	$ 316,945	$ 115,830
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			($626)	
Net assets of business-type activities.			$ 316,319	

The accompanying notes are an integral part of these basic financial statements.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year-Ended September 30, 2008
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 63,602	$ 92,144	$ 155,746	$ 221,413
Total Operating Revenues	63,602	92,144	155,746	221,413
Operating Expenses:				
Personal Services	25,652	34,033	59,685	38,095
Contractual Services	7,306	25,077	32,383	27,205
Commodities	2,207	8,071	10,278	7,028
Materials				24,580
Claims				86,395
Other	6,450	17,486	23,936	17,253
Depreciation	9,721	1,605	11,326	14,751
Total Operating Expenses	51,336	86,272	137,608	215,307
Operating Income	12,266	5,872	18,138	6,106
Nonoperating Revenues (Expenses)				
Investment Earnings	10,732	1,278	12,010	4,036
Other Nonoperating Revenue	16,368	842	17,210	2,479
Gain on Sale of Capital Assets	2		2	3,693
Interest and Debt Expense	(18,516)	(1,880)	(20,396)	(15)
Other Nonoperating Expense	(11,291)	(5,915)	(17,206)	
Total Nonoperating Revenues (Expenses)	(2,705)	(5,675)	(8,380)	10,193
Change in Net Assets Before Contributions and Transfers	9,561	197	9,758	16,299
Capital Contributions	20,961		20,961	
Debt Transfer from Governmental Funds		(8,320)	(8,320)	
Transfers In (Out):				
Transfers In	300	7,188	7,488	10,363
Transfers Out	(239)	(2,065)	(2,304)	(8,634)
Total Transfers In (Out)	61	5,123	5,184	1,729
Change In Net Assets	30,583	(3,000)	27,583	18,028
Net Assets - October 1	249,806	39,556		97,802
Net Assets - September 30	$ 280,389	$ 36,556		$ 115,830
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			2,321	
Change in Net Assets of Business-Type Activities.			$ 29,904	

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on
State Grants "Single Audit Report"
Year-Ended September 30, 2008

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2008
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 65,658	$ 91,145	$ 156,803	$ 221,211
Cash Payments to Suppliers for Goods and Services	(22,009)	(51,266)	(73,275)	(170,455)
Cash Payments to Employees for Service	(23,787)	(31,554)	(55,341)	(35,676)
Cash Received from Other Nonoperating Revenues	16,368	842	17,210	2,479
Net Cash Provided by Operating Activities	36,230	9,167	45,397	17,559
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds	300	7,188	7,488	10,363
Transfers Out to Other Funds	(239)	(2,065)	(2,304)	(8,634)
Due to Other Funds	8,046	14,579	22,625	1,409
Due from Other Funds	(7,991)	(22,220)	(30,211)	(4,952)
Net Cash Provided by (Used for) Non-Capital Financing Activities	116	(2,518)	(2,402)	(1,814)
Cash Flows from Capital and Related Financing Activities:				
Acquisitions and Construction of Capital Assets	(76,842)	(8,845)	(85,687)	(18,773)
Proceeds from Issuance of Long-Term Debt	160,867	10,304	171,171	
Principal Payments on Long-Term Debt	(12,275)	(1,905)	(14,180)	(235)
Interest Paid on Long-Term Debt	(16,649)	(1,904)	(18,553)	
Debt Issuance Costs	(3,424)	(31)	(3,455)	
Principal Payments on Notes		4,575	4,575	
Interest Paid on Notes				(14)
Proceeds from Sale of Assets	7		7	3,693
Net Cash Provided by (Used for) Capital and Related Financing Activities	51,684	2,194	53,878	(15,329)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(535,816)	(68,055)	(603,871)	(220,015)
Maturity of Investment Securities	428,819	59,821	488,640	216,787
Investments Earnings	10,747	1,312	12,059	4,056
Net Cash Provided by (Used for) Investing Activities	(96,250)	(6,922)	(103,172)	828
Net Increase (Decrease) in Cash and Cash Equivalents	(8,220)	1,921	(6,299)	1,244
Cash and Cash Equivalents, October 1	28,584	2,631	31,215	3,625
Cash and Cash Equivalents, September 30	$ 20,364	$ 4,552	$ 24,916	$ 4,869

The accompanying notes are an integral part of these basic financial statements.

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2008
(In Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$ 12,266	$ 5,872	$ 18,138	$ 6,106
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	9,721	1,605	11,326	14,751
Other Nonoperating Revenues	16,368	842	17,210	2,479
Changes in Assets and Liabilities:				
(Increase) In Other Accounts Receivable	(330)	6	(324)	(584)
(Increase) Decrease In Allowance for Uncollectibles				393
(Increase) Decrease In Accrued Revenues	2,088	(1,005)	1,083	(2)
(Increase) In Due from Other Governmental Agencies				(9)
(Increase) In Materials and Supplies	(27)	(22)	(49)	(156)
(Increase) Decrease In Prepaid Expenses	(5)		(5)	12
(Increase) In Deposits		(50)	(50)	(102)
(Increase) Decrease In Vouchers Payable	69	(596)	(527)	(3,114)
Increase in Claims Payable				(1,681)
Increase (Decrease) In Accounts Payable - Other	(6,083)	36	(6,047)	(2,953)
Increase In Accrued Payroll	235	238	473	346
Increase In Accrued Leave Payable	84	182	266	(23)
Increase in Net OPEB Obligation	1,546	2,059	3,605	2,096
Increase In Unearned Revenue	298		298	
Net Cash Provided by Operating Activities	$ 36,230	$ 9,167	$ 45,397	$ 17,559
Noncash Investing, Capital and Financing Activities				
Debt Transfer from Governmental Funds	$ -	$ (8,320)	$ (8,320)	$ -
Capital Contributions	20,961		20,961	

The accompanying notes are an integral part of these basic financial statements.

Statement of Fiduciary Net Assets/Balance Sheet
Fiduciary Funds
As of September 30, 2008
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 64,484	$ 1	$ 1,396
Security Lending Collateral	166,199		
Investments, at Fair Value:			
U.S. Government and Agency Issues	65,089	21	9,548
Corporate Bonds	328,269		
Preferred and Common Stock	849,981		
Other	753,876		
Total Investments, at Fair Value	1,997,215	21	9,548
Receivables:			
Other Accounts	2,923		358
Accrued Interest	7,079		11
Accrued Revenue	2,645		
Prepaid Expenses	19		
Total Current Assets	2,240,564	22	11,313
Capital Assets			
Machinery and Equipment	126		
Buildings	767		
Total Capital Assets	893		
Less: Accumulated Depreciation	379		
Net Capital Assets	514		
Total Assets	$ 2,241,078	$ 22	$ 11,313
Liabilities:			
Vouchers Payable	4,438		45
Accounts Payable - Other	7,313		10,826
Accrued Payroll	106		
Due to Other Funds			442
Unearned Revenue	306		
Securities Lending Obligation	168,229		
Total Liabilities	180,392		$ 11,313
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 2,060,686	$ 22	

The accompanying notes are an integral part of these basic financial statements.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year-Ended September 30, 2008
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 78,136	$ -
Employee	33,748	
Total Contributions	111,884	
Investment Earnings/(Loss):		
Net (Decrease) in Fair Value of Investments	(347,208)	
Real Estate Income, Net	8,551	
Interest and Dividends	39,628	1
Securities Lending	4,786	
Other Income	1,535	
Total Investment Earnings/(Loss)	(292,708)	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(12,559)	
Securities Lending Expenses:		
Borrower Rebates	(4,796)	
Lending Fees	(707)	
Net Investment Earnings/(Loss)	(310,770)	1
Total Additions	(198,886)	1
Deductions:		
Benefits	129,232	
Refunds of Contributions	490	
Administrative Expense	2,536	1
Salaries, Wage and Employee Benefits	655	
Total Deductions	132,913	1
Change in Net Assets	(331,799)	
Net Assets - October 1	2,392,485	22
Net Assets - September 30	$ 2,060,686	$ 22

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2008
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 160,926	$ 14,384	$ 23,544	$ 198,854
Cash Collateral from Securities Lending	400,306			400,306
Investments	234,115	179,615	687	414,417
Receivables, Net:				
Notes			7,079	7,079
Other Accounts	180,740	43,037	8,245	232,022
Accrued Interest	25,788	2,666	84	28,538
Materials and Supplies, at Cost	153,084	4,805	100	157,989
Due from Other Governmental Agencies			3,313	3,313
Prepaid Expenses	43,361	2,242	34,413	80,016
Other Assets			719	719
Total Unrestricted Assets	1,198,320	246,749	78,184	1,523,253
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	2,272			2,272
Investments		30,318		30,318
Receivables - Accrued Interest	2			2
Capital Projects Accounts:				
Cash and Cash Equivalents		13,773		13,773
Investments	290,501	204,727		495,228
Receivables - Accrued Interest	2,816			2,816
Ordinance Accounts:				
Cash and Cash Equivalents	54,039			54,039
Investments	444,220			444,220
Receivables - Accrued Interest	5,473			5,473
Other Restricted Accounts:				
Cash and Cash Equivalents	21,913		22,011	43,924
Investments	429,449	37,424	11,074	477,947
Deferred Charges			6,268	6,268
Receivables			11,921	11,921
Receivables - Accrued Interest	1,872			1,872
Prepaid Expenses			627,470	627,470
Total Restricted Assets	1,252,557	286,242	678,744	2,217,543
Total Current Assets	2,450,877	532,991	756,928	3,740,796
Noncurrent Assets:				
Capital Assets:				
Land	63,411	123,336	39,032	225,779
Infrastructure			55,968	55,968
Buildings			201,095	201,095
Utility Plant in Service	8,130,874	3,082,140		11,213,014
Machinery and Equipment		132,892	4,046	136,938
Construction in Progress	846,682	361,192	42,365	1,250,239
Nuclear Fuel	538,357			538,357
Total Capital Assets	9,579,324	3,699,560	342,506	13,621,390
Less: Accumulated Depreciation	3,773,793	1,002,265	71,893	4,847,951
Net Capital Assets	5,805,531	2,697,295	270,613	8,773,439
Assets Held for Resale		2,760	523	3,283
Prepaid Rent Long Term-Leaseback	456,813			456,813
Net OPEB Asset	30,218			30,218
Other Noncurrent Assets	37,496	296		37,792
Unamortized Bond Issuance Costs		17,286		17,286
Total Noncurrent Assets	6,330,058	2,717,637	271,136	9,318,831
Total Assets	$ 8,780,935	$ 3,250,628	$ 1,028,064	$ 13,059,627

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2008
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Accounts Payable and Other Current Liabilities	$ 386,036	$ 44,016	$ 31,207	$ 461,259
Sewer Service Collections Payable		304		304
Unearned Revenue			1,959	1,959
Securities Lending Obligation	400,306			400,306
Notes and Lease Payables			190	190
Due to Other Governmental Agencies			2,158	2,158
Current Portion of Long-term Lease/Notes Payable	22,561	453	18,078	41,092
Current Portion of Other Payables	2,642	3,541	8,209	14,392
Total Payable from Current Unrestricted Assets	811,545	48,314	61,801	921,660
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest		8,994		8,994
Current Portion of Bonds and Certificates	152,875	27,630		180,505
Other Payables		16,740		16,740
Total Payable from Restricted Assets	152,875	53,364		206,239
Total Current Liabilities	964,420	101,678	61,801	1,127,899
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	3,689,746	1,484,880		5,174,626
Commercial Paper		100,000		100,000
Unamortized Premium on New Series Bonds		18,421		18,421
Unamortized Discount on New Series Bonds		(11,516)		(11,516)
Deferred Amount on Refunding		(26,550)		(26,550)
Long-Term Lease/Notes Payable (Net of Current Portion)	520,772	118	749,742	1,270,632
Net OPEB Obligation		13,217		13,217
Other Payables (Net of Current Portion)	576,288	451	12,580	589,319
Total Noncurrent Liabilities	4,786,806	1,579,021	762,322	7,128,149
Total Liabilities	5,751,226	1,680,699	824,123	8,256,048
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,259,117	1,333,818	174,104	3,767,039
Restricted for:				
Renewal and Replacement	503,733		3,102	506,835
Debt Service	2,274	21,324	971	24,569
Capital Projects			2,953	2,953
Unrestricted	264,585	214,787	22,811	502,183
Total Net Assets	$ 3,029,709	$ 1,569,929	$ 203,941	$ 4,803,579

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2008
(In Thousands)

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
CPS Energy	$ 1,904,053	$ 1,860,677	$ -	$ 58,390
San Antonio Water System	341,626	330,337		139,764
Nonmajor Component Units	97,117	112,288	867	6,189
Total	$ 2,342,796	$ 2,303,302	$ 867	$ 204,343

General Revenues:
Investment Earnings
Miscellaneous
Adjustment for STP Pension Cost

Total General Revenues and Special Items

Change in Net Assets
Net Assets - Beginning of Fiscal Year, as restated

Net Assets - End of Fiscal Year

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2008
(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
$ 15,014			$ 15,014
	128,475		128,475
		22,227	22,227
15,014	128,475	22,227	165,716
116,508	24,442	1,702	142,652
		913	913
(21,174)			(21,174)
95,334	24,442	2,615	122,391
110,348	152,917	24,842	288,107
2,919,361	1,417,012	179,099	4,515,472
$ 3,029,709	$ 1,569,929	$ 203,941	$ 4,803,579

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on State Grants "Single Audit Report"

Year-Ended September 30, 2008

Financial and Compliance Report on State Grants "Single Audit Report"
Table of Notes to Financial Statements
Year-Ended September 30, 2008

Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit is provided entirely or almost entirely to the City (blended), and (c) component units, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statements No. 14 and No. 39 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statements No. 14 and No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate
2) Financial accountability
    a) Appointment of a voting majority
    b) Imposition of will
    c) Financial benefit to or burden on the City
    d) Fiscal dependency
3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete
4) Service rendered by the potential component unit is provided entirely or almost entirely to the City
5) The City or its component units, are entitled to, or have the ability to access the majority of the resources received or held by the separate organization

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2008, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and are such that the financial statements are blended in with those of the City.

As set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. Following is a brief description of the City's blended component units:

Convention Center Hotel Finance Corporation
P.O. Box 830504,
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

The Convention Center Hotel Finance Corporation (CCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The CCHFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

Empowerment Zone Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio. The EZDC is fully blended within the Community Development Program Fund, in the Grants section. EZDC has neither assets nor obligations and has incurred expenditures of $54 during fiscal year 2008 that were paid with CDBG funding. Financial statements are not audited or separately available.

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact: Warren Schott
Telephone No. (210) 534-3262

The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including two City Council members of San Antonio, and the Mayor or his appointee. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.

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Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205-3716
Contact: James Bounds
Telephone No. (210) 220-1385

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment health care benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment health care benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including two City Council members of San Antonio and the Mayor or his appointee, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. Contribution rates and benefits are established pursuant to legislation enacted by the State with the Health Care Fund Board's ability to modify benefits within certain parameters.

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of the City as, a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The City Council of San Antonio comprises the board of directors that govern HFDC.

San Antonio Housing Trust Finance Corporation
2515 Blanco Road
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (SAHTFC) was established in fiscal year 1997 under the Texas Housing Finance Corporations Act (the Act), in accordance with state laws for the purposes of, and to act on behalf of the City in, carrying out the purposes of the Act, including the issuance of single family and multi-family revenue bonds. SAHTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of the City as, an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects, which may further the promotion and development of commercial, industrial, and manufacturing enterprises to advance and encourage employment and public welfare. The IDA is governed by a board of directors, which is comprised of the City Council of San Antonio.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Public Library Foundation
625 Shook
San Antonio, Texas 78212
Contact: Kaye Lenox
Telephone No. (210) 225-4728

The San Antonio Public Library Foundation was created in 1983 to emphasize the important role the private sector has in helping to enhance Library resources and services. The Library Foundation works to raise funds from several sources, including individuals, corporations and charitable foundations for the sole benefit of the Library and to raise awareness for reading. The City's library board of trustees' Chairman and two additional members of the library's board of trustees are members of the 100+ member Foundation Board. The Foundation is a self-governing agency, as such the City has no control over the board of trustees or how the funds are expended. Additionally, as a self-governing agency, the City has no access to the Foundation's funds. The purpose of the Foundation is exclusively to support the San Antonio Public Library System and to increase the awareness and use of the Library through financial support and programmatic efforts.

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in, acquiring, constructing, equipping, financing, operating, and maintaining land and other municipal facilities for the City. The TMFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

Starbright Industrial Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

The Starbright Industrial Development Corporation (SIDC) was established in fiscal year 2003 in accordance with state laws for the purposes of, and to act on behalf of the City in, the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and public welfare, including but not limited to the acquisition of land. The SIDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

The blended component unit with a different fiscal year-end from the City is the San Antonio Public Library Foundation with a fiscal year-end of December 31st.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity, and accordingly are included; however, is such that the financial statements are discretely presented alongside, but not blended with those of the City.

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235-5355
Contact: Bart Sanchez
Telephone No. (210) 536-6710

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state laws for the purposes of, and to act on behalf of the City in, improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development for Brooks Air Force Base and in the surrounding community. An eleven-member board of directors appointed by the City Council of San Antonio governs the BDA for two-year terms and oversees the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City's ability to impose its will on this organization is through City Council having the power to remove board members.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

City South Management Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

City South Management Authority (CSMA) is a political subdivision of the State of Texas established at the request of the City for the purposes of supporting economic development, creating sustainable communities, and promoting the unique historical, cultural and environmental assets of the City's southern edge. CSMA was established by the City in 2005, with a fifteen-member board; six appointed by the City, six by Bexar County, and three appointed collectively by Southwest, East Central, and Southside Independent School Districts. The issuance of bonds or notes must be approved by the City Council of San Antonio.

CPS Energy
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact: Richard E. Williamson
Telephone No. (210) 353-2397

CPS Energy, a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS Energy is governed by a board of trustees, which is comprised of four members appointed by the City Council of San Antonio and has the City's Mayor as an ex-officio member. The user rates for services and charges and the issuance of bonds are approved by the City Council.

Main Plaza Conservancy
111 Soledad, Suite 811
San Antonio Texas 78205
Contact:
Penny Postoak Ferguson
Telephone No. (210) 225-9800

Main Plaza Conservancy (MPC), a nonprofit organization that provides the management of Main Plaza, was incorporated in October 2007. MPC operates and maintains Main Plaza in coordination with the City and Bexar County; to develop and implement a strategy to increase awareness of the historical and cultural significance of Main Plaza, and to organize cultural and artistic events at Main Plaza for the benefit of the citizens, residents and visitors of San Antonio. MPC is governed by an eleven-member board of directors, with one representative from the City and one representative from Bexar County. MPC must obtain written permission from the City Manager or designee on such items including security guidelines, charges for admittance, improvements and changes to Main Plaza, and debt issuances.

Municipal Golf Association - San Antonio
8250 Vista Colina
San Antonio, Texas 78255
Contact: James E. Roschek
Telephone No. (210) 695-5050

Municipal Golf Association – San Antonio (MGA-SA) was established in fiscal year 2007 in accordance with state laws for the purposes of, and to act on behalf of the City in, operating and promoting the City's municipal golf facilities. MGA-SA is governed by a fifteen member board of directors, which is comprised of seven members selected by MGA-SA according to the approved process contained in its by-laws; two ex-officio member positions from City staff who are appointed by the City Manager; and six members appointed by the City Council of San Antonio.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Port Authority of San Antonio dba Port San Antonio
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226-1816
Contact: Bruce Miller
Telephone No. (210) 362-7800

Greater Kelly Development Corporation (GKDC) was established in 1996 as a local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC, while at the same time clarifying such powers and preserving the property tax-exempt status of prior commercial tenants at Kelly. In 2006, GKDA changed its name to Port Authority of San Antonio dba Port San Antonio (the Port). The Port is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The Port is governed by an eleven-member board of directors, appointed by the City Council of San Antonio. The City Council also has the ability to remove appointed members of the organization's governing board at will. The Port is authorized to issue bonds to finance any project as permitted by state laws, but said bonds are not obligations of the City.

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact: David D. Garza
Telephone No. (210) 207-5850

San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council of San Antonio and the federal agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and daily operations are being staffed by City personnel. SADA is governed by a seven-member board of commissioners appointed by the City Council.

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with, and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to San Antonio Education Facilities Corporation (SAEFC). The Code authorizes SAEFC to issue revenue bonds for these purposes on behalf of the City, but the bonds are not obligations of the City. SAEFC is governed by an eleven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will, and the City reserves the right to terminate and dissolve SAEFC at any time.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

SA Energy Acquisition Public Facility Corporation
145 Navarro
San Antonio, Texas 78205
Contact: Shannon R. Albert
Telephone No. (210) 353-2940

SA Energy Acquisition Public Facility Corporation (SAEAPFC) was established in 2007, in accordance with state laws for the purposes of, and to act on behalf of the City in, the financing and acquisition of electric energy and power, oil, gas, coal and other liquid, gaseous or solid hydrocarbon fuels for the electric and gas systems of the City. SAEAPFC is governed by a seven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will.

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212-2796
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low- and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven-member board of directors appointed by the City Council of San Antonio. SAHTF administers the San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company Inc. dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact: Ed Davis
Telephone No. (210) 207-8040

San Antonio Local Development Company, Inc. (SALDC) is a nonprofit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. In 2004, SALDC changed its name to San Antonio Local Development Company dba South Texas Business Fund (STBF). STBF also expanded the area served from twelve counties to all of the counties in the State of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a twenty-five member board of trustees; twelve are directors all appointed by the City Council of San Antonio and the Alamo Area Council of Governments. STBF, under agreement with the City, administers and operates a revolving loan fund; the NBRP provides qualifying local businesses with loans under economic development programs administered by the SBA. STBF also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program, the Bill Sinkin Micro-Loan Fund, and the Inner-City Loan Fund.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On May 19, 1992, the consolidation of water systems, agencies and activities into one institution through a refunding of the then outstanding water and sewer bonds of the former City Water Board, Alamo Water Conservation and Re-Use District, and the City's Sewer and Stormwater System, resulted in the creation of the San Antonio Water System (SAWS). The City Council of San Antonio determined that the interests of the citizens and the customers would best be served by placing authority for management and control of SAWS, as consolidated, with a board of trustees. This board of trustees includes the City's Mayor as an ex-officio member, along with six members appointed by the City Council for four-year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

Westside Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ramon Flores
Telephone No. (210) 207-8204

Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the Westside of San Antonio. WDC seeks to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, WDC functions as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates are the policy-setting oversight authority for WDC, comprising of 17 members.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year-ends from the City are CPS Energy and SAEAPFC with fiscal year-ends of January 31st, and SAWS, with a fiscal year-end of December 31st.

Related Organizations

The City Council of San Antonio appoints members to the board of commissioners for the San Antonio Housing Authority (SAHA) and a majority of the board of directors for Keep San Antonio Beautiful, Inc. However, the City's accountability for these entities does not extend beyond making appointments to their boards, and the coordination and approval of strategic plans, for SAHA.

Note 1 Summary of Significant Accounting Policies (Continued)

Basic Financial Statements - GASB Statement No. 34

Government-Wide and Fund Financial Statements - The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, the City early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of capital assets, as well as the related depreciation to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the government-wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets and unamortized bond issuance costs, and long-term obligations, such as debt, are now reported in the governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

The Statement of Activities - Reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, and operating and capital grants and contributions. Program revenues must be directly associated with the function of program activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the Internal Service Fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the Internal Service Funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. The only reconciling item is the Internal Service Fund allocation.

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Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund balances and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: governmental funds, enterprise funds, and fiduciary funds. The fund financial statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major governmental funds and major enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditure/expenses of that governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

- The General Fund is always presented as a major fund.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in proprietary type funds.
- The Categorical Grant-In-Aid Fund accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, and HOME Investment Partnership Grants.

The following is a brief description of the major proprietary fund that is presented separately in the fund financial statements:

- The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

Governmental Funds

General Fund is the primary operating fund for the City, which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

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.

Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

The governmental funds that have legally adopted budgets are the General Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, and most Community Services Funds), Debt Service Fund, Visitor Information Center and City Store, Animal Care Services, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, Tree Preservation Mitigation, and San Jose Burial Fund. Please note the Visitor Information Center and City Store, Animal Care Services, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, and Tree Preservation Mitigation are reported as components of the Community Services Funds.

Proprietary Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the expenses (including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in these funds.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds includes an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales and use tax to be remitted to the State of Texas, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues into three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Further descriptions of these three categories follow. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are additionally reported as program revenues.

1) Charges for services are revenues generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures, license and permits and intergovernmental revenues as reported in the General Fund are also reported under charges for services.
2) Operating grants and contributions are those revenues that are restricted in the way they may be spent for operations of a particular program.
3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase or build capital assets for specified programs.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within 60 days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as unearned revenue until earned and available.

Gross receipts and sales and use taxes are considered available when received by intermediary collecting governments, and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, compensated absences, debt service expenditures, claims and judgments, and arbitrage rebates are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund materials and supplies and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets. The reported proprietary fund net assets are segregated into three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking System Fund. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's proprietary funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Nonoperating revenue consists primarily of investment income, including fair market value adjustments. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 and the sale of water rights, when applicable, are also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating revenue when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2008 were recorded net of expenses.

SAWS' principal operating revenues are charges to customers for water supply, water delivery, wastewater, and chilled water and steam services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating revenues consist primarily of interest income earned on investments, including the changes in fair value of investments. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs, sales of capital assets and payments to the City.

Current Year GASB Statement Implementations

In fiscal year 2008, the City implemented the following GASB Statements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/ expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. See Note 9, Postemployment Retirement Benefits and the related Postemployment Schedules.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. The City did not have any terminations in fiscal year 2008 that met the requirements of GASB Statement No. 47.

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations (Continued)

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to determine if a certain transaction should be regarded as a sale or a collateralized borrowing, requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. Implementation of this Statement did not impact the City's financial statements.

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27,* aligns the reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* See Note 8, Pension and Retirement Plans and the related Pension Schedules.

Future GASB Statement Implementations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* establishes accounting and financial reporting standards for pollution, including contamination, remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean-ups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The requirements for this Statement are effective for fiscal periods beginning after December 15, 2007.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* establishes consistent guidance on recognition of intangible assets. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. This Statement also establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also establishes guidance specific to intangible assets related to amortization. It provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions, and if there are no factors that limit the useful life of an intangible asset, it is considered to have an indefinite useful life. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2008.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* is intended to improve how state and local governments recognize, measure, and disclose information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance in this Statement also addresses hedge accounting requirements. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009. It is the determination of the City that implementation of GASB Statement No. 53 will not impact the City's financials since the City does not invest in or use derivative instruments, but will impact certain of the City's component units.

The City has not fully determined the effects that implementation of Statements No. 49, No. 51, and No. 52 will have on the City's financial statements.

Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2008, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

The City, CPS Energy, and SAWS account for, and report investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Fire and Police Pension Plan and the Fire and Police Retiree Health Care Fund report investments at fair value, in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The City's policy with respect to money market investments, which have a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

Materials and Supplies and Prepaid Items

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, and furniture and office equipment which includes computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life (Years)	Capitalization Threshold
Buildings	15-40	$ 100
Improvements (Other than buildings)	20-40	100
Machinery and Equipment	2-20	5
Furniture and Office Equipment	5-10	5
Infrastructure	15-100	100

CPS Energy

The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacements of minor items are charged to operating expenses. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

The CPS Energy's utility plant is stated at the cost of construction, including expenses for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and an allowance for funds used during construction (AFUDC), which represents capitalized interest. CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds measured as the investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets as increases in fund net assets in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2008.

Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

In fiscal year 2008, a depreciation study was performed that resulted in a change in depreciation rates and the useful lives of capital assets. The updated estimated useful lives were as follows:

	2008
Buildings and structures	20-60 years
Systems and improvements:	
Generation	18-60 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	Units of Production

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $1. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from land developers, are recorded at estimated fair value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The table below shows an estimated average of useful lives used in providing for depreciation of capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10-50 years
Distribution and transmission system	25-50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5-20 years
Furniture and fixtures	10 years
Computer equipment	5 years
Software	3 years

General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Primary Government (City)

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City nonuniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees, accrued sick leave pay, holiday pay, and bonus pay. Compensatory time is also accrued for the matured portion of the City's nonuniformed, nonexempt employees, as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

CPS Energy

Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2008 the accruals for those vested benefits were $14,200.

San Antonio Water System (SAWS)

It is SAWS' policy to accrue employee vacation pay as earned as well as the employer portion of Social Security taxes related to the accrued vacation pay. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, retiree health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property loss on a primary basis through Great American Insurance Company of New York and through RSUI Indemnity Company for excess loss to the Convention Center. Excess liability coverage for casualty losses is provided by Star Insurance Company. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year. The City determines and accrues loss liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

The City also provides employee health, a pro rata share of retiree health benefits, workers' compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2008, the City has excess workers' compensation coverage through Star Insurance Company. The City records all workers' compensation loss contingencies, including claims incurred but not reported. The City determines and accrues workers' compensation liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

Note 1 Summary of Significant Accounting Policies (Continued)

Insurance (Continued)

Employee and retiree health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits utilizing claim lag data from the City's third party administrator (TPA). The City additionally determines and accrues postemployment liabilities based on an actuarial assessment of historical claim data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the postemployment liability as additional contributions.

Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent." A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12, Risk Financing.

Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent years' expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

Revenue Recognition

Primary Government (City)

Governmental funds record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. "Available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, interest revenue, and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS Energy

CPS Energy revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. Rate schedules include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy has used historical information from the relative prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process has involved an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. The amount of unbilled revenue receivable recorded at January 31, 2008 including estimates for electric and gas fuel costs, was $49,600.

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

CPS Energy (Continued)

CPS Energy's electric fuel cost adjustment clause also permits recovery of regulatory assessments. Specifically beginning in March 2000, CPS Energy began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges and from the Texas Independent System Operator, also known as the Electric Reliability Council of Texas (ERCOT), for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments for fiscal year 2008 were $23,200.

San Antonio Water System (SAWS)

SAWS revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed. The amount of unbilled revenue receivable was $19,158 at December 31, 2007.

Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2008, general government expenditures were reduced by $8,621, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $5,476 and $3,145, respectively.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums, discounts and debt refundings are deferred and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Bond Issuance Costs

In the government-wide and proprietary fund financial statements, bond issuance costs are reported as assets in the Statement of Net Assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period as expenditures of the funds in which proceeds of debt issuances are recorded.

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Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity

Elimination of internal activity, particularly related to Internal Service Fund transactions, is needed to make the transition from governmental funds to government-wide activities. The overriding objective in eliminating the effects of Internal Service Fund activity is to adjust the internal charges to cause a break-even result. Eliminating the effect of Internal Service Fund activity requires the City to look back and adjust the Internal Service Funds' internal charges. Net income derived from Internal Service Fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an Internal Service Fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the Statement of Activities remove the doubling up effect of Internal Service Fund activity. The residual internal balances between the governmental and business-type activities are reported in the Statement of Net Assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports Internal Service Fund balances in both governmental and business-type activities, based on the pro rata share of the amounts charged to the participating funds/functions.

The City has three Internal Service Funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charge users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year, as well as, a pro rata user fee charged to employees. The retiree benefit fund additionally generates revenue through a pro rata user fee charged to retirees. The net income or loss generated by the Self-Insurance Funds is allocated back, based on the same allocation by which the revenues are received over time.

Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

Unreserved Designated Fund Balance

The designated fund balances from the governmental funds balance sheet are composed of the following:

- The General Fund has designated unreserved fund balances of $3,348 for budgeted carryforwards, $5,796 for special projects, $68,168 for reserve for revenue loss, and $5,682 for Public, Educational and Government Access Funding (PEG) revenues.
- Special Revenue Funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund, a reservation for security of a loan within the San Antonio Housing Trust Fund, and the endowment for the San Antonio Public Library Foundation.

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Note 1 Summary of Significant Accounting Policies (Continued)

Special Items

In fiscal year 2008 several transactions were initiated moving debt from governmental activity funds to enterprise funds. When the debt relating to 2006 and 2007 Certificates of Obligations, 2004A Refunding General Obligations, and 2007 Tax Notes (which were subsequently refunded with 2006 General Obligations) were initially recorded, proceeds, bonds payable, and additional bond costs (premiums, discounts, cost of issuances) were recorded in the governmental activity funds as they were pledged with ad valorem taxes even though the funds were used for construction of enterprise funds' capital assets. Monthly transfers from the Parking System and Environmental Services Fund to the Debt Service Fund were initiated to cover the principal and interest expenditures. Therefore, all self supporting enterprise debt was moved from governmental activity funds into their respective enterprise funds. For debt and related cost transfers, see Note 6, Long-Term Debt.

Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. Property tax billing and collections are performed via an inter-local agreement with the Bexar County Tax Assessor/Collector's Office.

In the governmental funds, property tax revenues are recognized when they become available, which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivables, net of allowances for uncollectible amounts, are offset by unearned revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2008, was $0.5723 per $100 taxable valuation, which means that the City has a tax margin of $1.9277 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,271,412 per year based on the net taxable valuation of $65,954,867 before the limit is reached.

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing (TIF) and the creation of Tax Increment Reinvestment Zones (TIRZ) pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2008, there are 22 existing TIRZ with a total taxable captured value of $840,122. For fiscal year 2008, this total taxable captured value produced $4,500 in tax increment revenues for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 10 years to 30 years which are anticipated to expire starting in fiscal year 2009 through fiscal year 2032. It is estimated that the City will contribute approximately $400,000 in tax increment revenues in aggregate over the next 30 years for these TIRZ projects. The existing TIRZ are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heathers Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North, and Verano Projects.

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Note 3 Cash and Cash Equivalents and Investments

Summary of Cash and Cash Equivalents and Investments

A summary of cash and cash equivalents and investments for the primary government (City), Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

Totals from Statement of Net Assets

	City [1]	Fire and Police Pension Fund [2]	Fire and Police Retiree Health Care Fund [2]	CPS Energy [3]	SAWS [4]
Unrestricted:					
Cash and Cash Equivalents	$ 25,508	$ 57,518	$ 6,966	$ 160,926	$ 14,384
Security Lending Collateral		158,644	7,555	400,306	
Investments	402,572	1,816,313	180,902	234,115	179,615
Total Unrestricted	428,080	2,032,475	195,423	795,347	193,999
Restricted:					
Cash and Cash Equivalents	89,481			78,224	13,773
Investments	829,488			1,164,170	272,469
Total Restricted	918,969			1,242,394	286,242
Total Cash and Cash Equivalents and Investments	$ 1,347,049	$ 2,032,475	$ 195,423	$ 2,037,741	$ 480,241

[1] Private Purpose Trust and Agency Funds, Westside Development Corporation, City South Management Authority and San Antonio Development Agency's cash and investments are included in the City's pooled cash and investments but are not available for City activities and are excluded from the primary government's Statement of Net Assets. The Private Purpose Trust and Agency assets are presented above as Restricted Cash and Cash Equivalents of $1,397 and Investments of $9,569. The other entities' assets are presented in the Discretely Presented Component Unit's Statement of Net Assets.

[2] The Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund are separately issued fiduciary component units and are excluded from the primary government's Statement of Net Assets.

[3] For the fiscal year ended January 31, 2008.

[4] For the fiscal year ended December 31, 2007.

Summary of Cash and Cash Equivalents

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial Institutions	$ 9,579	$ 7,071	$ 10	$ 5,362	$ 14,353
Investments with Original Maturities of Less than Ninety Days	104,718	699	6,944	233,088	13,773
Cash with Pension/Retiree Health Care Fiscal Agents		49,748			
Cash with Other Financial Agents	341		12	578	
Petty Cash Funds	163			122	
Cash on Hand	188				31
Total Cash and Cash Equivalents	$ 114,989	$ 57,518	$ 6,966	$ 239,150	$ 28,157

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Summary of Cash and Cash Equivalents and Investments (Continued)

Summary of Investments

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Funds	$ 1,329,364	$ 65,788	$ 21,857	$ 1,386,412	$ 465,857
Repurchase Agreements	5,089				
Fixed Income Securities [1]	581				
Equity Securities [1]	1,744				
Corporate Bonds		328,269		47,391	
Foreign Bonds				4,434	
Preferred Stock		1,028			
Common Stock		806,321	30,179	193,136	
Real Estate		201,126	44,229		
Hedge Funds		234,769	43,469		
International Equities			12,453		
Swaps Liabilities		1,011			
Alternative Investment		178,700	35,659		
Total Investments	1,336,778	1,817,012	187,846	1,631,373	465,857
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(104,718)	(699)	(6,944)	(233,088)	(13,773)
Total	$ 1,232,060	$ 1,816,313	$ 180,902	$ 1,398,285	$ 452,084

[1] These investments are reported under a blended component unit (SA Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments was not attainable.

Primary Government (City)

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General Fund or another fund within the CAFR reporting fund.

Collateral is required for demand deposits and certificates of deposit at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government or government agency or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

The City's investment portfolio is managed in accordance with its own Investment Policy and the Texas Public Funds Investment Act, as amended. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2008.

The City accounts for and reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $76 for the year-ended September 30, 2008. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Exposure*, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

City Investments

	Carrying [1] Amount	Fair [1] Value	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 939,841	$ 939,915	70.3%	AAA/A-1+	0.46 years
U.S. Treasuries	290,540	290,540	21.7%	N/A	0.28 years
Money Market Mutual Fund	98,909	98,909	7.4%	AAAm	1 day
Fixed Income Securities [4]	581	581	0.1%		
Equity Securities [4]	1,744	1,744	0.1%		
Repurchase Agreement	5,089	5,089	0.4%	N/A	1 day
Total City Investments	$ 1,336,704	$ 1,336,778	100.0%		

[1] The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, Convention Center Hotel Finance Corporation, and San Antonio Public Library Foundation, which total $25,396.

[2] The allocation is based on fair value.

[3] Standard & Poors.

[4] These investments are reported under a blended component unit (SA Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments, ratings and WAM were not attainable.

Custodial Credit Risk (Deposits) - Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services. The City periodically determines that the collateral has a market value of not less than 102.0% of the deposit amount and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository, with securities consisting of U.S. government agency or securities held in book entry form by the Federal Reserve Bank in the City's name.

- 52 - Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

Custodial Credit Risk (Investments) - The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name "as a custodian for the City". Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Interest Rate Risk - The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates so that fewer funds will be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all investments will not become due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds with 100.0% overnight liquidity. Additionally, the City has entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

Credit Risk - The City's Investment Policy requires the purchase of securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury securities and federal agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated "A" or better by at least two nationally recognized rating agencies. As of September 30, 2008, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation, and Federal Farm Credit Bank were rated AAA (Long-term) and A-1+ (Short-term) by Standard & Poor's. The investments in the money market funds were rated "AAAm" by Standard & Poor's, and all repurchase agreements were over 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of "A" or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to concentration of credit risk through diversification. As of September 30, 2008, the U.S. government agency's 70.3% securities allocation was as follows: Federal National Mortgage Association 25.7%, Federal Home Loan Mortgage Corporation 22.1%, Federal Home Loan Bank 12.2%, Federal Agricultural Mortgage Corporation 1.1%, and Federal Farm Credit Bank 9.2%.

Fire and Police Pension Fund

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investments in private equity and others that do not have an established market are reported at estimated fair value using discounted expected future cash flows at rates that are adjusted for the amount of expected risk and valuations of comparable assets with ascertainable market values. Investment income is recognized as earned. Net appreciation/(depreciation) in fair value of investments includes gains and losses that are being recognized based on the change in the market value of the investments, but have not been realized because the assets have not been sold or exchanged as of the balance sheet date. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investments are $2,032,475. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Custodial Credit Risk (Deposits) - Cash and short-term investments include demand deposit accounts and short-term U.S. government and other investments. As of September 30, 2008, cash in demand deposit accounts were fully collateralized.

Custodial Credit Risk (Investments) - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2008, the Pension Fund had cash deposits held by investment managers in the amount of $8 that was uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2008, 39.0% of the Pension Fund's bonds were rated AAA, 3.0% were rated AA, 7.0% were rated A, 19.0% were rated BBB, 13.0% were rated BB, 7.0% were rated B, 1.0% were rated CCC, and 11.0% were not rated.

Interest Rate Risk - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2008 amount to $394,276 and have a weighted-average maturity (WAM) of 10.85 years. Securities that are subject to interest rate risk are shown in the following table.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
Corporate Bonds	$ 64,061	12.55
Government Agencies	9,712	5.90
Government Bonds	42,333	6.36
Short Term Bills and Notes	3,805	0.18
Government Mortgage Backed Securities	105,524	7.75
Non-Government Backed C.M.O.s	24,300	27.74
Commercial Mortgage-Backed	3,458	7.56
Bank Loans	5,607	4.80
Asset Backed Securities	35,882	12.41
Ashmore	28,012	16.40
Ashmore LFC	16,380	6.60
Wellington Emerging Market Debt	55,202	10.40
Total Interest Rate Sensitive Securities	$ 394,276	10.85

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2008 amounted to $198,299 in equities, $136,380 in bonds and $(4,661) in cash. Detailed as follows:

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ -	$ 1,232	$ -	$ 1,232
Australian Dollar	6,567	9,978	(2,715)	13,830
Bermuda Dollar	1			1
Brazilian Real	10,650	17,439		28,089
Canadian Dollar	1,714	3,050		4,764
Swiss Franc	11,972		(1,369)	10,603
Chinese Renminbi	4,059	1,134		5,193
Chilean Peso		471		471
Colombian Peso		2,336		2,336
Czech Republic Krona	(1,670)	1,254		(416)
Danish Krone	2,756			2,756
Egyptian Pound		815		815
European Union	54,155	1,113	(1,132)	54,136
British Pound	26,517	3,303	(1,855)	27,965
Hong Kong Dollar	7,826			7,826
Hungarian Forint	3,443	938		4,381
Iceland Krona		1,887		1,887
Indonesian Rupiah	1,550	4,951		6,501
Israeli New Shekel	811			811
Indian Rupee	717			717
Japanese Yen	24,857	18,659	818	44,334
South Korean Won	11,715	31		11,746
Lithuanian Litas	3			3
Mexican Peso	5,080	12,068		17,148
Malaysian Ringgit	60	6,823	1	6,884
Norwegian Krone	1,985		1	1,986
New Zealand Dollar	168	4,058		4,226
Nigerian Naira		1,947		1,947
Pakistani Rupe	273			273
Panamanian Balboa		267		267
Peruvian Nuevo Sol		3,647		3,647
Philippine Peso		3,002		3,002
Polish Zloty	(2,068)	7,306		5,238
Romanian Leu	401			401
Russian Ruble	2,289	7,708		9,997
Swedish Krona	2,446	2,472	8	4,926
Singapore Dollar	784	3,064	7	3,855
Thai Baht	2,692			2,692
Turkey New Lira	4,177	4,695	1,575	10,447
Taiwan Dollar	10,271			10,271
Ukrainian Hyvnia	1	232		233
UAE Dirham		1,158		1,158
Uruguay Peso		1,408		1,408
Venezuelan Bolivar		3,071		3,071
South African Rand	2,097	4,863		6,960
	$ 198,299	$ 136,380	$ (4,661)	$ 330,018

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 23 days at September 30, 2008. For the year-ended September 30, 2008, the Pension Fund has recognized an unrealized loss amounting to $2,030. The loss is due to the write down of some of the fixed income assets in the investment pool.

As of September 30, 2008, the Pension Fund had lending arrangements outstanding with a total market value of $159,951, which were fully collateralized with cash and securities. Of this amount, cash collateral of $160,674 is recorded in the accompanying Statement of Fiduciary Net Assets. The net loss recognized for the year-ended September 30, 2008 under the securities lending arrangement was $717. This includes the $2,030 unrealized loss on the valuation of the investment pool. Securities lending collateral - cash and cash equivalents, at fair value is shown net of the $2,030 loss with.the assets on the Statement of Fiduciary Net Assets.

Cash Collateral Pool

	2008
U.S. Government Bonds	$ 1,457
U.S. Treasury Notes	5,052
U.S. Letters of Credit	260
U.S. Asset Backed Securities	27,870
U.S. Corporate Notes	22,237
U.S. Repo Agreements	37,302
U.S. Sweep Vehicle	1,562
U.S. Agencies Bonds	9,044
U.S. Certificates of Deposit	2,823
International Letters of Credit	698
International Certificates of Deposit	30,836
International Time Deposits	16,373
International Asset Backed Securities	4,078
International Corporate Notes	1,082
Subtotal	160,674
Unrealized Loss	(2,030)
Total	$ 158,644

Derivatives and Structured Investments - The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at September 30, 2008, was approximately $24,300, in commercial mortgage obligations and is included with investments in the Statement of Fiduciary Net Assets. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was $234,769 as of September 30, 2008.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

As of September 30, 2008, the fund held currency forward contracts as follows:

	2008	
Currency	Market Value Receivable/ (Payable)	Maturity Date
Austrialian Dollars	$ (1,932)	11/10/2008
Austrialian Dollars	(790)	12/19/2008
Euros	(1,128)	12/19/2008
Japanese Yen	817	12/19/2008
Turkish Lira	1,573	1/26/2009
British Pound	(2,693)	1/22/2009
British Pound	825	12/19/2008
Swiss Franc	(1,366)	12/19/2008
U.S. Dollars	2,186	11/10/2008
U.S. Dollars	2,679	1/22/2009
U.S. Dollars	(1,611)	1/26/2009
U.S. Dollars	1,698	12/19/2008
Total	$ 258	

The Pension Fund invested using an investment strategy called "portable alpha" in the year-ended September 30, 2008. In implementing this strategy, the Pension Fund combined a low volatility absolute return strategy to provide consistent returns that are greater than interest paid at LIBOR, or "alpha". These returns are added to the difference between LIBOR and the Lehman Brothers Government Index, or "beta". In order to simulate the beta exposure, a two part strategy is employed. First, a swap is employed whereby the Pension Fund pays the 30 day LIBOR and receives a fixed rate of 5.2%. The notional amount of the swap is $27,000. The counterparty pays the fixed rate every 6 months on February 28th and August 28th. The Pension Fund pays interest every quarter on February 28th, May 28th, August 28th and November 28th. The contracts are effective as of February 28, 2007. The swap is subject to counterparty risk in the event that the counterparties are unable to pay the guaranteed amount because of financial insolvency. The amount at risk would be the difference between the interest using 30 day LIBOR on $27,000 and the fixed 5.2% interest on $27,000 for the same period. Management of the Pension Fund considers the possibility of loss due to the failure of the counterparties to be remote. A receivable of $1,011 and a liability of $346 related to the swap are included with the investments on the Statement of Fiduciary Net Assets for the fiscal year-ended September 30, 2008. The second part of the strategy involves the use of Treasury futures to replicate the return from the Lehman Brothers Government Index. The contracts used are 3 month contracts and are usually rolled over to new contracts within a half month of their maturity dates. The underlying securities used are new issues. As of September 30, 2008, the Pension Fund held Treasury futures contracts in the amount of $64,444. The margin accounts for the futures contracts are settled daily, so there is no market value for the futures as of September 30, 2008. Income is recognized in the Statement of Changes in Fiduciary Net Assets in net appreciation in fair value of investments. The contracts in force as of September 30, 2008 are listed below:

Contracts in Force as of September 30, 2008

Underlying Security	Interest Rate	Market Value	Contract Beginning Date	Contract Maturity Date
2 Year T-Note	6.0%	$ 24,759	8/24/2008	12/31/2008
5 Year T-Note	6.0%	36,475	8/24/2008	12/31/2008
10 Year T-Note	6.0%	3,210	8/24/2008	12/31/2008
Total		$ 64,444		

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Investments in alternative investments are substantially held in the form of nonmarketable limited partnerships interests. These investments are subject to the terms of the respective partnerships' governing documents which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers. These net asset values may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

All investment income, including changes in the fair value of investments, is reported as additions in the Statement of Changes in Fiduciary Net Assets.

The Health Care Fund's assets are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio (Investment Policy). The Health Care Fund utilizes an investment consultant that makes recommendations to the Health Care Fund as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, mutual funds, limited liability partnerships and cash) within the Health Care Fund. Additionally, the Health Care Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Investment Policy. All of the Health Care Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health Care Fund's Investment Policy include U.S. equities, including common stocks, securities convertible into common stock, and open or closed end mutual funds; international equity; certain fixed income assets, private equity and alternative investments, including real estate, absolute return hedge funds, and natural resources. The cash portion of the Health Care Fund will be invested in a short-term investment fund administered by the custodian bank, a money market mutual fund, or in individual permissible securities.

The fair value of the Health Care Fund's cash and investments at September 30, 2008 is $187,868. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits that are held with Frost Bank in non-interest bearing demand accounts are covered under the new FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2009, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. It does not appear that deposits the Health Care Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2008.

The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2008. The Health Care Fund is aware of these risks and monitors such risks, if any, as part of its day-to-day operations and through its daily dealings with the custodian bank.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Custodial Credit Risk (Investments) - The Health Care Fund's investment securities, stocks, and bonds, are held at Frost National Bank's third-party custodian, Bank of New York Mellon. All securities held for the Health Care Fund at Bank of New York Mellon are in Frost National Bank's name, and Frost National Bank tracks these securities as being held for the benefit of the Health Care Fund. Since the securities are not registered in the name of the Health Care Fund and are held by a counterparty, and are not insured, they are considered to be exposed to custodial credit risk. These investments are reported as follows, by investment type, as of September 30, 2008:

Common Stock	$ 30,179
International Equity	12,453
Money Market Mutual Fund	6,944

Credit Risk - The Health Care Fund's Investment Policy includes a section that addresses overall credit quality. According to the Investment Policy, the average credit quality rating for the fixed-income portfolio will be at least A. Ninety percent of the securities must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines. Credit quality ratings for investments with credit risk are as follows at year-end:

Rating	Percentage Held
AAA/Aaa	62.4%
AA+	2.2%
AA	1.0%
AA-	1.6%
A+	4.4%
A	8.1%
A-	1.0%
BBB+	2.2%
BBB	11.3%
BB+	2.6%
BB-	0.8%
B	0.9%
Accrued Interest (Not Rated)	1.5%
Total	100.0%

Concentration of Credit Risk - The Health Care Fund's Investment Policy regarding concentration of credit risk for equities states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. Regarding fixed-income assets, no more than 10.0% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. The policy further states there shall be no such limit on U.S. government securities, U.S. agency securities or government - sponsored entities, U.S. agency mortgage-backed securities, or other sovereign issues rated AAA or Aaa. At year-end, the Health Care Fund did not have any investments in any one issuer that represented 5.0% or more of total investments.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Interest Rate Risk - The Health Care Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Health Care Fund is aware of this risk and has chosen to rely on the expert advice of professional money managers to manage its exposure to interest rate changes. The money market mutual fund with a fair value of $6,944, at year-end and is payable on demand.

Securities Lending - Securities lending assets are reported at fair value. State statutes and the Health Care Fund policies allow for securities lending transactions. The Health Care Fund entered into an agreement with its custodial bank in May 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic, nongovernment, or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event the borrower fails to repay the borrowed securities, when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote. Cash collateral is invested in open-end money market type mutual funds at September 30, 2008.

Subscribed Capital Commitments - As of September 30, 2008, the Fund had non-binding commitments to invest capital in ten investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to $105,000. As of September 30, 2008, $45,358 of this total had been called.

CPS Energy

CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS Energy's investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. As available, fair values are determined by using generally accepted financial reporting services, publications, and broker and dealer information, as necessary. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy reports all investments of the Decommissioning Trusts at fair market value.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds and Junior Lien Obligations, and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The assets of the Decommissioning Trusts are also considered restricted.

The Repair and Replacement Account is restricted in accordance with the CPS Energy's bond ordinances. In compliance with a bond ordinance, CPS Energy's board of trustees authorized that a portion of the Repair and Replacement Account be designated for converting overhead electric facilities to underground (also referred to as the Overhead Conversion Fund).

CPS Energy's cash deposits at January 31, 2008 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, U.S. government agency, or U.S. government-guaranteed obligations held in book entry form by Frost National Bank in CPS Energy's name.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Since the assets in the Decommissioning Trusts are restricted for use only for decommissioning at some future date, securities lending cash collateral has been treated as long-term and thus has been classified as an investment in the Trusts. Consistent with other investments in the Trusts, securities lending cash collateral is shown separately on the table that lists investments by type in the Decommissioning Trust section of this Note.

Cash, Cash Equivalents and
Securities Lending Cash Collateral

	January 31, 2008
Cash and cash equivalents	
Petty cash funds on hand	$ 122
Bond paying agent - debt service - restricted	578
Deposits with financial institutions	
Unrestricted CPS Energy deposits	4,326
Restricted CPS Energy deposits	
Debt service	735
Project Warm	301
Investments with original maturities of less than 90 days	
CPS Energy unrestricted (current)	156,478
CPS Energy restricted (noncurrent)	62,801
Decommissioning Trusts - restricted (noncurrent)	13,809
Total cash and cash equivalents	239,150
CPS Energy - securities lending cash collateral	400,306
Total cash, cash equivalents and securities lending cash collateral	$ 639,456

CPS Energy's cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts are reported on a calendar-year basis.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments

	January 31, 2008
Cash and cash equivalents	
CPS Energy unrestricted and restricted	$ 225,341
Decommissioning Trusts - restricted	13,809
Total cash and cash equivalents	239,150
Gross investments - current and noncurrent	
CPS Energy unrestricted and restricted	1,188,115
Decommissioning Trusts - restricted	443,258
Total gross investments	1,631,373
Investments with original maturities of less than 90 days also included in cash equivalents	
CPS Energy unrestricted and restricted	(219,279)
Decommissioning Trusts - restricted	(13,809)
Total investments also included in cash equivalents	(233,088)
Net current and noncurrent investments	1,398,285
Total cash, cash equivalents and investments	$ 1,637,435

CPS Energy's direct investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers. In September 2005, the Texas legislature passed a law to allow the decommissioning trust funds for municipally owned nuclear power plants to hold investments authorized by Subtitle B, Title 9, of the Property Code (i.e., corporate bonds and equities such as common stocks).

CPS Energy's allowable direct investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, bond ordinances, Tax-Exempt Commercial Paper (TECP) Ordinance and state law. These investments are subject to market risk, and their market value will vary as interest rates fluctuate. All CPS Energy direct investments are held in trust custodial funds by an independent bank.

CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Strategy Committee, the Trust Agreements and state law. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities). Specifically, starting in September 2005, in accordance with the applicable amended investment policies, total investments can include a maximum of 60.0% equity securities.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Permissible Investments

Investment Description	CPS Energy Direct Investments	Decommissioning Trusts
U.S. Government, Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligation issued by the U.S. Government	✓	✓
Fully secured certificates of deposit issued by a state, national or savings bank domiciled in the State of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers' acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Other specific types of secured or guaranteed investments	✓	✓
Equities	N/A	✓
Corporate bonds	N/A	✓
International securities	N/A	✓
Securities lending	✓	✓

In fiscal year 2007, CPS Energy and the Decommissioning Trusts entered into agreements with Frost National Bank, a Texas-based financial institution, for the purpose of securities lending. The cash collateral received for CPS Energy's securities lending transactions is reported as a current asset on the Balance Sheets and the corresponding obligation to repay the cash collateral is reported on the Balance Sheets as a current liability that directly offsets the amount received from brokers or dealers in exchange for securities loaned. See Note 12, Risk Financing for details regarding securities lending.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund

	January 31, 2008
Unrestricted	
Cash and cash equivalents	$ 160,926
Investments	234,115
Total Unrestricted (current)	395,041
Restricted	
Debt service	
Cash and cash equivalents	2,272
Total Debt Service	2,272
Capital projects	
Investments	290,501
Total Capital Projects	290,501
Ordinance	
Cash and cash equivalents	54,039
Investments	444,220
Total Ordinance	498,259
Other	
Project Warm	
Cash and cash equivalents	8,104
Total Project Warm	8,104
Decommissioning Trusts	
Cash and cash equivalents	13,809
Investments	429,449
Total Decommissioning Trusts	443,258
Total Other	451,362
Total Restricted	
Cash and cash equivalents	78,224
Investments	1,164,170
Total Restricted (noncurrent)	1,242,394
Total cash, cash equivalents and investments (unrestricted and restricted)	$ 1,637,435

CPS Energy's cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. Interest rate risk is the exposure to fair market value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair market value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event and general economic risks.

CPS Energy's direct investments portfolio has limited indirect exposure related to the asset-backed commercial paper holdings in its AIM Investments money market funds. AIM Investments has issued a formal statement that outlines their investment practice of ensuring that all asset-backed commercial paper purchased has high credit protection and liquidity support that exceeds the negligible indirect subprime mortgage exposure.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

While the financial markets continue to experience impacts due to subprime lending, neither CPS Energy's direct investments nor the investments in the Decommissioning Trusts have any direct exposure to investments backed by subprime collateral.

The investments in the Decommissioning Trusts have limited indirect exposure related to the ownership of equities of various financial institutions, a sector that, as a whole, has been under considerable downward price pressure. The Trusts' investment policy requires a diversified investment strategy that facilitates the mitigation of market risks during periods of economic downturn.

CPS Energy's direct investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The investment policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes, and CPS Energy board of trustee resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continually monitoring prudent controls over risks. All investment policies follow the "prudent person" concept.

Summary of Investments by Organizational Structure and Type

	January 31, 2008
CPS Energy investments	
U.S. Treasury, Government Agencies and money market funds	$ 1,188,115
Decommissioning Trusts	
U.S. Treasury, Government Agencies and money market funds	198,297
Corporate bonds	47,391
Foreign bonds	4,434
Subtotal	250,122
Common stock	193,136
Total Decommissioning Trusts	443,258
Grand total - all investments	$ 1,631,373

Effective September 1, 2005, as a result of a change in Texas law, the investment policies of the Decommissioning Trusts were revised to allow for investment in additional types of securities, such as corporate bonds and equity securities. The policies provide guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The investment policies continue to follow the "prudent person" concept.

In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. The disclosure requirements of this Statement do not apply to equity securities since they are not directly or immediately exposed to these risks. CPS Energy and the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's or the Decommissioning Trusts names.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

CPS Energy's Direct Investments - In accordance with GASB Statement No. 40, the following tables address credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk exposure by investment type using the weighted-average maturity (WAM) method. Since CPS Energy does not hold foreign instruments in its direct investments (those not held by one of the Decommissioning Trusts), foreign currency risk is not applicable.

Interest Rate Risk - In accordance with its investment policy, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolio's WAM to two years or less. WAM is defined as the weighted-average time to return a dollar of principal. It is used as an estimate of the interest rate risk of a fixed-income investment. CPS Energy invests the cash collateral received from securities lending and other funds in money market mutual funds that have no fixed maturities. Accordingly, a WAM in terms of years for money market mutual funds is not applicable.

Concentration of Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any nongovernment issuer to 5.0% of the total fixed-income portfolio.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 122,358	$ 122,617	10.3%	1.7
Federal National Mortgage Assn.	249,599	250,313	21.0%	2.7
Federal Home Loan Bank	560,843	562,949	47.3%	0.5
Federal Farm Credit Bank	15,075	15,075	1.2%	0.0
JP Morgan - CD	75,000	75,000	6.3%	0.4
AIM Money Market	165,240	165,240	13.9%	0.0
Total Fixed-Income Investments	1,188,115	1,191,194	100.0%	0.7
Cash Collateral - Securities Lending	400,306	400,306		
Total Fixed-Income Portfolio	$ 1,588,421	$ 1,591,500		

Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of "A" or better. As of January 31, 2008, CPS Energy held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 1,588,421	$ 1,591,500	100.0%
Total Fixed-Income Investments	$ 1,588,421	$ 1,591,500	100.0%

Decommissioning Trust Investments - As mentioned above, the Decommissioning Trust report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31. These tables address interest rate risk exposure by investment type (using the weighted-average duration method), credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at market value.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially. To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Lehman Brothers Aggregate Index, which is 4.4 for 2007.

Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment - especially those with payment terms dependent on market interest rates.

Concentration of Credit Risk - In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2007, total nongovernment-sponsored (corporate and foreign) issuers amounted to 34.3% of the 28.0% Decommissioning Trust and 13.7% of the 12.0% Decommissioning Trust.

The following tables list the fixed-income investment holdings by type:

	28.0% Interest			12.0% Interest		
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 13,695	10.1%	3.0	$ 2,683	7.2%	6.2
U.S. Agencies:						
Federal National Mortgage Assn.	36,919	27.1%	3.6	11,946	31.9%	3.6
Federal Home Loan Mortgage Corp.	17,509	12.9%	3.5	6,192	16.5%	4.3
Small Business Administration	4,929	3.6%	5.7			
Government National Mortgage Assn.				3,523	9.4%	4.9
Municipal Bonds - Texas	146	0.1%	2.4	1,883	5.0%	7.6
Municipal Bonds - Other States	3,368	2.5%	7.3	5,003	13.4%	4.7
Corporate Bonds	42,261	31.1%	6.8	5,130	13.7%	5.4
Foreign Bonds	4,434	3.2%	8.3			
AIM Money Market	12,731	9.4%		1,078	2.9%	
Total Fixed-income Investments	$ 135,992	100.0%	5.0	$ 37,438	100.0%	4.9
Cash Collateral - Securities Lending	54,971			21,721		
Total Portfolio	$ 190,963			$ 59,159		

Credit Risk - In accordance with the investment policies, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of "BBB-" or better from at least two nationally recognized credit rating agencies. As of December 31, 2007 the Decommissioning Trusts held no investments with a credit rate below "BBB."

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

	28.0% Interest		12.0% Interest	
Credit Rating	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	$ 13,695	7.2%	$ 2,683	4.4%
AAA	142,290	74.5%	50,031	84.6%
AA	3,742	2.0%	3,468	5.9%
A	17,299	9.0%	2,641	4.5%
BBB	13,937	7.3%	336	0.6%
Total Fixed-income Portfolio	$ 190,963	100.0%	$ 59,159	100.0%

Foreign Currency Risk - With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollar-denominated. This, along with the low level of foreign fixed-income investment, reduced the potential foreign currency risk exposure to the portfolio. The foreign bonds outstanding amounted to $4,434 as of December 31, 2007 held by the 28.0% Decommissioning Trust.

CPS Energy Employee Benefit Plan Investments - Due to the implementation of GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008. The Employee Benefit Plans' separately audited financial statements, including the disclosures related to GASB Statement No. 40 can be obtained by contacting the Employee Services Division of CPS Energy by email at BPSiller@CPSEnergy.com.

San Antonio Water System (SAWS)

SAWS is permitted by City Ordinance No. 75686, SAWS' Investment Policy and Texas state law, to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less at reported cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposit) - All funds are deposited at JP Morgan Chase Bank N.A., SAWS' general depository bank. The general depository agreement with the bank does not require SAWS to maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2007, the collateral pledged is being held by the Federal Reserve Bank of New York under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2007, the bank balance of demand and savings account was $19,187, and the reported amount was $14,384 which included $31 of cash on hand.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are in Agencies of the United States and are held in safekeeping by SAWS' depository bank, JP Morgan Chase Bank N.A., registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by U.S. Bank and are invested in U.S. Treasury Obligations. As of December 31, 2007, all investments of SAWS are classified as current assets as they had remaining maturities of less than one year.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

As of December 31, 2007, SAWS had the following investments and maturities:

	Investments Maturities (in Days)				
Investment Type	90 Days or Less	91 to 180	181 to 365	Fair Value	Reported
U.S. Agency Discount Notes	$ 83,202	$ 114,990	$ 25,491	$ 223,683	$ 223,556
U.S. Agency Coupon Notes	77,829	95,776	59,720	233,325	233,192
Money Market Funds:					
U.S. Bank	9,109			9,109	9,109
	$ 170,140	$ 210,766	$ 85,211	$ 466,117	$ 465,857
Percentage of Portfolio	36.5%	45.2%	18.3%	100.0%	

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 100.0% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of "A" or better. Additionally, any investments in commercial paper require a rating of at least "A-1" or "P-1". As of December 31, 2007 SAWS held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2007				
AAA	$ 465,857	$ 466,117	100.0%	Max. = 100.0%
Total Portfolio	$ 465,857	$ 466,117	100.0%	

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2007, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 29.0% in Federal Home Loan Bank, 43.0% in Federal National Mortgage Association, and 22.0% in Federal Home Loan Mortgage Corporation.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

The following is a reconciliation of deposits and investments disclosed in the note to the amounts presented for cash and investments in the balance sheets for 2007:

	December 31, 2007
Reported amounts in note for:	
Deposits	$ 14,384
Investments	465,857
Total Deposits and Investments	$ 480,241
Totals for Balance Sheets:	
Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	$ 14,384
Restricted cash and cash equivalents:	
Capital Projects Accounts	13,773
Total Cash and Cash Equivalents	28,157
Investments:	
Unrestricted current investments	179,615
Restricted current investments:	
Debt Service Accounts	30,318
Other Restricted Accounts:	
Operating reserve	29,567
Customers' deposits	7,857
Total Other Restricted Accounts	37,424
Total Current Investments	247,357
Restricted noncurrent investments:	
Capital Projects Accounts	204,727
Total Cash, Cash Equivalents and Investments	$ 480,241

Note 4 Capital Assets

Primary Government (City)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. Impairments of $83 were identified and reduced in capital assets for governmental activities and $740 in business-type activities.

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year-ended September 30, 2008, is as follows:

Capital Assets - Governmental Activities							
Governmental Activities	Beginning Balance	Prior Period Adjustment [1]	Beginning Balance (Restated)	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:							
Land	$ 1,341,567	$ -	$ 1,341,567	$ 14,574	$ -	$ -	$ 1,356,141
Construction in Progress	214,187		214,187	214,848	(3,914)	(144,707)	280,414
Other Non-Depreciable Assets				500			500
Total Non-Depreciable Assets	1,555,754		1,555,754	229,922	(3,914)	(144,707)	1,637,055
Depreciable Assets:							
Buildings	668,349	231	668,580		(123)	42,428	710,885
Improvements	238,440	472	238,912	60		56,872	295,844
Infrastructure	2,246,274		2,246,274			45,407	2,291,681
Machinery and Equipment	328,510	36	328,546	24,046	(7,954)		344,638
Total Depreciable Assets	3,481,573	739	3,482,312	24,106	(8,077)	144,707	3,643,048
Accumulated Depreciation:							
Buildings	(219,509)		(219,509)	(18,796)	123		(238,182)
Improvements	(62,427)	(32)	(62,459)	(10,745)			(73,204)
Infrastructure	(1,384,688)		(1,384,688)	(55,147)			(1,439,835)
Machinery and Equipment	(173,224)		(173,224)	(26,963)	6,884		(193,303)
Total Accumulated Depreciation	(1,839,848)	(32)	(1,839,880)	(111,651)	7,007		(1,944,524)
Total Depreciable Assets, net	1,641,725	707	1,642,432	(87,546)	(1,070)	144,707	1,698,524
Total Capital Assets, net	$ 3,197,479	$ 707	$ 3,198,186	$ 142,376	$ (4,984)	$ -	$ 3,335,579

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 21,270
Public Safety	6,706
Public Works	58,927
Health Services	630
Sanitation	87
Welfare	622
Culture and Recreation	4,345
Convention and Tourism	4,214
Economic Development and Opportunity	99
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	14,751
Total Depreciation Expense for Governmental Activities	$ 111,651

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2008, Internal Service Funds capital assets increased by $19,815, and decreased by $7,665, resulting in an ending balance of $150,512. Depreciation expense of $14,751 resulted in an ending accumulated depreciation balance of $95,978, to arrive at net book value of $54,534.

[1] Prior Period Adjustments are due to the incorporation of the San Antonio Library Foundation as a blended component unit of the City. As the Foundation is a self-governing agency the City has no control over rights to these assets. See Note 17, Prior Period Restatement.

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 2008, the City capitalized construction period interest for the Airport System in the amount of $946. Capital asset activity for business-type activities for the year-ended September 30, 2008, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 4,543	$ 780	$ -	$ -	$ 5,323
Nonmajor Enterprise Funds	9,018				9,018
Total Land	13,561	780			14,341
Construction in Progress:					
Airport System	97,999	76,602		(54,417)	120,184
Nonmajor Enterprise Funds		3,210	(740)	(1,201)	1,269
Total Construction in Progress	97,999	79,812	(740)	(55,618)	121,453
Total Non-Depreciable Assets	111,560	80,592	(740)	(55,618)	135,794
Depreciable Assets:					
Buildings:					
Airport System	144,248			51,554	195,802
Nonmajor Enterprise Funds	30,362				30,362
Total Buildings	174,610			51,554	226,164
Improvements:					
Airport System	210,372	11		2,863	213,246
Nonmajor Enterprise Funds	7,013			1,201	8,214
Total Improvements	217,385	11		4,064	221,460
Machinery and Equipment:					
Airport System	11,189	428	(39)		11,578
Nonmajor Enterprise Funds	6,991	3,512			10,503
Total Machinery and Equipment	18,180	3,940	(39)		22,081
Total Depreciable Assets	410,175	3,951	(39)	55,618	469,705
Accumulated Depreciation:					
Buildings:					
Airport System	(64,916)	(3,535)			(68,451)
Nonmajor Enterprise Funds	(10,685)	(805)			(11,490)
Total Buildings	(75,601)	(4,340)			(79,941)
Improvements:					
Airport System	(86,071)	(5,705)			(91,776)
Nonmajor Enterprise Funds	(1,700)	(264)			(1,964)
Total Improvements	(87,771)	(5,969)			(93,740)
Machinery and Equipment:					
Airport System	(9,392)	(481)	34		(9,839)
Nonmajor Enterprise Funds	(4,110)	(536)			(4,646)
Total Machinery and Equipment	(13,502)	(1,017)	34		(14,485)
Total Accumulated Depreciation	(176,874)	(11,326)	34		(188,166)
Total Depreciable Assets, net	233,301	(7,375)	(5)	55,618	281,539
Total Capital Assets, net	$ 344,861	$ 73,217	$ (745)	$ -	$ 417,333

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes seven power plants, which are solely owned and operated by CPS Energy. In total, the plants have 19 generating units—three of which are coal-fired and 16 of which are gas-fired. The following is a list of plants and relative generating units:

Plant	Generating Units	Type	Plant	Generating Units	Type
J.T. Deely	2	Coal	V.H. Brauning	3	Gas
J.K. Spruce	1	Coal	W.B. Tuttle	4 *	Gas
Arthur von Rosenberg	1	Gas	Leon Creek	6	Gas
O.W. Sommers	2	Gas			

* Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2, which is fully depreciated and is currently not available for use.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in 2010. Spruce 2, a 750-megawatt unit, will be the largest of the coal units at Calavaras Lake and will be equipped with current emissions-control technology.

Other notable capital assets in electric and gas plant include a fleet of rail cars, a transmission network for the movement of electric power from the generating stations, and the electric and gas distribution systems.

Included in general plant are the Energy Management Center; the main office complex; the North Side Customer Service Center; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks, and work equipment.

Impairments - No capital asset impairments were identified for fiscal year 2008.

Investment in STP - STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (STPNOC), a nonprofit Texas corporation special-purpose entity. It is financed and controlled by the owners - CPS Energy, NRG Energy, Inc. and the City of Austin.

CPS Energy's 40.0% interest in STP Units 1 and 2 is included in plant-in-service. On October 29, 2007, the CPS Energy board of trustees approved a resolution enabling CPS Energy to participate in development activities related to new nuclear electrical-generating capacity, including the STP nuclear power plants Units 3 and 4.

STP Capital Investment (40.0% share), Net

	January 31, 2008
STP capital assets, net	
Construction-in-progress	$ 84,835
Land	5,701
Electric and general plant	1,332,717
Nuclear fuel	65,110
Total STP capital assets, net	$ 1,488,363
Total CPS Energy capital assets, net	$ 5,805,531
STP capital investments as a percentage of total CPS Energy capital assets, net	25.6%

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the Balance Sheets, including capital asset activity for fiscal year 2008:

Capital Assets - CPS Energy	Beginning Balance	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Land	$ 60,080	$ -	$ 3,581	$ (250)	$ 63,411
Nonutility Land	12,599			(12,599)	
Construction in Progress	419,795	735,080	(308,193)		846,682
Total Non-Depreciable Assets	492,474	735,080	(304,612)	(12,849)	910,093
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	6,599,451	48,777	247,693	(31,861)	6,864,060
Gas Plant	601,453	3,097	13,139	(4)	617,685
General Plant	607,784	15,503	43,780	(17,938)	649,129
Utility Property Leased	18,785			(18,785)	
Nuclear Fuel	521,229	24,370		(7,242)	538,357
Total Depreciable Capital Assets	8,348,702	91,747	304,612	(75,830)	8,669,231
Accumulated Depreciation					
Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(2,708,475)	(204,255)		30,569	(2,882,161)
Gas Plant	(205,076)	(13,344)		334	(218,086)
General Plant	(180,740)	(46,741)		27,182	(200,299)
Utility Property Leased	(840)	(317)		1,157	
Nuclear Fuel	(451,253)	(29,250)		7,256	(473,247)
Total Accumulated Depreciation Depletion and Amortization	(3,546,384)	(293,907)		66,498	(3,773,793)
Total Capital Assets, net	$ 5,294,792	$ 532,920	$ -	$ (22,181)	$ 5,805,531

Cash flow information - Cash paid for additions, net removal costs, and nuclear fuel was $802,310. Noncash AFUDC was $28,453, and a noncash write-off of excess amortization was $13, for a total of $830,776. Included in Reductions/Decreases was $8,495 in removal costs. These reductions were offset by $4,559 in salvage sales. Depreciation, depletion and amortization totaled $264,657.

Other - the increases in electric plant also included new substations, as well as transmission and distribution infrastructure.

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Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS capitalized interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the year-ended December 31, 2007, interest capitalized was $9,201. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Land	$ 73,069	$ -	$ 5,474	$ -	$ 78,543
Acquisition of Water Rights	39,719		5,319	245	44,793
Construction in Progress	372,598	289,940	(300,791)	555	361,192
Total Non-Depreciable Assets	485,386	289,940	(289,998)	800	484,528
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	351,342	1,492	25,145		377,979
Pumping and Purification	111,382	46	2,821		114,249
Distribution and Transmission System	1,152,560	582	163,010	21	1,316,131
Treatment Facilities	1,177,473		98,340	2,032	1,273,781
Machinery and Equipment:					
Machinery and Equipment	88,461	11,829	575	143	100,722
Furniture and Fixtures	4,830	3	99		4,932
Computer Equipment	15,843	1,111	8	116	16,846
Software	9,832	560			10,392
Total Depreciable Assets	2,911,723	15,623	289,998	2,312	3,215,032
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(75,114)	(7,434)			(82,548)
Pumping and Purification	(18,461)	(2,847)			(21,308)
Distribution and Transmission System	(322,607)	(28,352)		(21)	(350,938)
Treatment Facilities	(436,997)	(31,197)		(2,021)	(466,173)
Machinery and Equipment:					
Machinery and Equipment	(51,470)	(5,043)		(143)	(56,370)
Furniture and Fixtures	(3,021)	(321)			(3,342)
Computer Equipment	(11,226)	(1,889)		(107)	(13,008)
Software	(7,354)	(1,224)			(8,578)
Total Accumulated Depreciation	(926,250)	(78,307)		(2,292)	(1,002,265)
Total Depreciable Assets, net	1,985,473	(62,684)	289,998	20	2,212,767
Total Capital Assets, net	$ 2,470,859	$ 227,256	$ -	$ 820	$ 2,697,295

Amounts are expressed in thousands

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2008 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 145,594	$ 14,703	$ 5,058	$ 7,434	$ 8,674	$ 181,463
Business-Type Activities:						
Airport System	$ 5,001	$ -	$ -	$ 2,064	$ -	$ 7,065
Nonmajor Enterprise Funds	6,839			245		7,084
Total Business-Type Activities	$ 11,840	$ -	$ -	$ 2,309	$ -	$ 14,149

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $52,690 against customer, other governmental agencies and other receivables, and $4,659 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $1,876 against customer and other receivables.

The only receivables not expected to be collected within one year are $5,058 of notes and loans receivables, net of allowance for doubtful accounts, related to Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding unearned revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2008 are as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities	$ 150,980	$ 19,811	$ 170,791
Business-Type Activities:			
Airport System	$ 13,624	$ 871	$ 14,495
Nonmajor Enterprise Funds	3,176	1,052	4,228
Total Business-Type Activities	$ 16,800	$ 1,923	$ 18,723

Interfund Receivable and Payable Balances

As of September 30, 2008, the interfund receivable and payable balances represent short-term loans resulting from (1) post-closing adjustments between funds after cash and related interest earning have been calculated and allocated and (2) short-term borrowings at year-end. Of the $37,881 due from other funds in the General Fund, $36,155 is a result of overdraws of pooled cash. Except for an internal loan of $648 from the Equipment Renewal Replacement fund to Tax Increment Reinvestment Zone #27, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loan.

Amounts are expressed in thousands

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2008:

Summary Table of Interfund Receivables and Payables
As of September 30, 2008

	Due from Other Funds	Due To Other Funds
General Fund:		
Fiduciary Funds	$ 442	$ -
Categorical Grant-In Aid	33,492	1,720
Nonmajor Governmental Funds	3,866	2,519
Airport System Fund	81	
Total General Fund	37,881	4,239
Debt Service Funds:		
Nonmajor Governmental Funds	413	13
Nonmajor Enterprise Funds	442	2,130
Total Debt Service Funds	855	2,143
Airport System Fund:		
General Fund		81
Categorical Grant-In Aid	8	1
Internal Service Funds		8
Nonmajor Governmental Funds		11
Airport Operating Fund from the Airport Construction Fund	2,584	
Airport Debt Service Fund from Airport PFC Fund	135	
Airport Debt Service Fund from Airport Capital Improvement Fund	465	
Airport Debt Service Fund from Airport Construction Fund	363	
Airport Debt Service Fund from Airport Debt Service Fund	34	34
Airport PFC Capital Improvement Fund from Airport Construction Fund	1,086	
Airport Construction Fund to Airport PFC Capital Improvement Fund		1,086
Airport PFC Fund from Airport Debt Service Fund	106	
Airport Debt Service Fund to Airport PFC Fund		106
Airport PFC Capital Improvement Fund to the Airport PFC Fund	5,154	
Airport PFC Fund to the Airport PFC Captial Improvement Fund		5,154
Airport Construction Fund to Airport Debt Service Fund		363
Airport Capital Improvement Fund to Airport Debt Service Fund		465
Airport Construciton Fund from Airport Operating Fund		2,584
Airport PFC Fund to the Airport Debt Service Fund		135
Total Airport System Fund	9,935	10,028
Categorical Grant-In Aid:		
General Fund	1,720	33,492
Airport System Fund	1	8
Internal Service Funds	199	72
Nonmajor Enterprise Funds	158	537
Nonmajor Governmental Funds	164	126
Total Categorical Grant-In Aid	2,242	34,235
Fiduciary Funds:		
General Fund		442
Total Fiduciary Funds		442
Internal Service Funds:		
Internal Service Funds	1,407	1,407
Categorical Grant-In Aid	72	199
Nonmajor Enterprise Funds	3,208	
Airport System Fund	8	
Nonmajor Governmental Funds	705	199
Total Internal Service Funds	5,400	1,805
Nonmajor Governmental Funds:		
General Fund	2,519	3,866
Categorical Grant-In Aid	126	164
Debt Service Fund	13	413
Internal Service Funds	199	705
Airport System Fund	11	
Nonmajor Enterprise Funds	1,306	10,065
Nonmajor Governmental Funds	43,317	43,317
Total Nonmajor Governmental Funds	47,491	58,530
Nonmajor Enterprise Funds:		
Categorical Grant-In Aid	537	158
Nonmajor Enterprise Funds	9,488	9,488
Internal Service Funds		3,208
Nonmajor Governmental Funds	10,065	1,306
Debt Service Fund	2,130	442
Total Nonmajor Enterprise Funds	22,220	14,602
Total	$ 126,024	$ 126,024

Amounts are expressed in thousands

Note 5 Receivables and Payables (Continued)

CPS Energy

Disaggregation of Receivables - Net customer accounts receivable as of January 31, 2008, included $49,635 for unbilled revenue receivables and $131,105 for billed utility services. Interest and other receivables included $8,300 for regulatory-related receivables, $3,800 for interest receivables and $13,688 for other miscellaneous receivables.

Disaggregation of Payables - At January 31, 2008, accounts payable and accrued liabilities included $307,600 related to standard operating supplier and vendor payables, including fuels payable; $32,500 to employee-related payables; $22,561 to the current portion of deferred lease revenue; and $48,578 to other miscellaneous payables and accrued liabilities.

San Antonio Water System (SAWS)

Accounts Receivable – Accounts receivable, net of allowance for uncollectible accounts are broken down by core business as follows:

	December 31, 2007
Water Delivery	$ 13,149
Water Supply	13,384
Wastewater	15,318
Chilled Water and Steam	1,186
	$ 43,037

Sundry Payable and Accruals - SAWS has sundry payable and accruals totaling $30,725 as of December 31, 2007. A detailed breakdown of amounts included in these totals is provided in the table below:

	2007
Accrued ordinance payments to City	$ 548
Sewer service collections payable	304
Payroll liabilities	3,964
Unfunded Other Postemployment Benefits	13,217
Miscellaneous accruals	7,110
Contingency accrual	3,000
Utility accrual	1,722
Unclaimed property	211
Unearned revenues	649
Total Sundry Payable and Accruals	$ 30,725

A portion of sundry payable and accruals has been classified as long-term. The long-term portion consists of Other Postemployment Benefits that are not expected to be paid within the next year.

Amounts are expressed in thousands

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and ongoing capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2008. In December 2007, the City issued the following; $121,220 in General Improvement and Refunding Bonds, Series 2007 and $106,755 Combination Tax and Revenue Certificates of Obligations, Series 2007 (of which $2,500 was sold for purposes of Environmental Services).

The General Improvement and Refunding Bonds, Series 2007 were issued to finance general improvements of the City and to refund the City's $60,000 Tax Notes, Series 2007. The $60,000 Tax Notes, Series 2007 are short-term debt obligations payable from ad valorem taxes over a three-year period, which were used as an interim funding mechanism in anticipation of the long-term General Improvement and Refunding Bonds, Series 2007 which are paid out over a 20-year period. The net proceeds from the sale of the General Improvement and Refunding Bonds, Series 2007, which included an original premium of $6,780, were applied, together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt from short-term debt to long-term debt, the City will realize a total increase of $26,758 in debt service payments and an economic loss (difference between the present values of the debt service payments on the old and new debt) of $384. The General Improvement and Refunding Bonds are retired serially in the years 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2007 will be utilized to fund capital projects to include constructing, renovating, and improving municipal facilities; constructing the new Haven for Hope Homeless Campus; constructing, improving, and renovating park facilities; acquiring Mission Drive In Theatre land for open space; construction of improvements to the City's library system and municipal golf courses; constructing improvements for flood control; constructing parking facilities at the Witte Museum and the Zoo area; acquiring, constructing, and improving public safety facilities; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes; and the payment of professional services related to the construction and financing of the aforementioned projects. The Certificates have maturities ranging from 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

On December 18, 2007, the City issued $21,270 in Tax Notes, Series 2007A. The proceeds of the Notes will be utilized to fund technology improvements for various City-owned systems and improvements to the City's infrastructure improvements at Brooks City-Base. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes will have maturities ranging from 2008 to 2012, with interest rates ranging from 4.0% to 5.0%.

On July 11, 2008, the City issued $135,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008. $106,440 was issued to refund the Hotel Occupancy Tax Revenue Bonds, Series 2004B. Additionally, $28,650 in new money was issued for renovation to the Lila Cockrell Theatre, including ADA compliance improvements, asbestos abatement, renovation of all interior finishes and mechanical, electrical, and plumbing upgrades, as well as other expansion-related improvements. The Hotel Occupancy Tax Revenue Bonds, Series 2004B were originally issued as Multi-modal bonds insured by Ambac Assurance Corporation (Ambac) and structured as a Put Bond anticipated to mature August 15, 2008. The Put Bond was designed to be rolled over into a Variable Rate Demand Bond ("VRDB"), extended into another Put Bond structure, or refunded into fixed rate debt. The City chose an advanced refunding to a new series VRDB as the most advantageous option which preserved the City's flexibility given its continued development of the Convention Center Expansion Financing Plan. The transaction required the City to secure an irrevocable direct-pay letter of credit to provide additional security for the VRDB's. The Bonds have maturities ranging from 2008 to 2034, with interest rates set weekly. As a result of the 2008 refunding, the City will realize a total increase of $47,846 in debt service payments. Through this transaction, the City incurred an economic loss of $23,517.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad valorem taxes. The Certificates of Obligation are additionally secured by a lien on and pledge of certain Pledged Revenues of the City's municipal parks system, not to exceed $1,000 during the entire period the Certificates or interest remains outstanding, solely to permit the Certificates to be sold for cash. The Convention Center Expansion Revenue Bonds are pledged from hotel occupancy tax. The Municipal Drainage Bonds are pledged from municipal drainage revenue. The Municipal Facilities Corporation Lease Revenue Bonds are funded by lease payments. The Hotel Empowerment Zone Bonds are pledged by revenues to be received from the hotel operations. Starbright Industrial Development Corporation Revenue Bonds are pledged by utility revenue received by the City from CPS Energy.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, and certificates of obligation. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2008, $183,770 of previously defeased bonds were outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year-ended September 30, 2008 for governmental activity debt:

Governmental Activity Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2007	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2008
General Obligation Bonds:							
1996A Refunding	$ 82,730	2008	4.8000-6.000	$ 4,205	$ -	$ 4,205	$ -
1998 Refunding	30,855	2018	4.500-5.000	14,125		1,050	13,075
1998 Forward Refunding	53,950	2008	5.500-6.000	7,630		7,630	
1998A Refunding	49,110	2019	4.000-5.250	21,380		3,490	17,890
1999	12,000	2011	5.500	2,210		505	1,705
2000	27,565	2020	4.500-5.000	6,620		1,195	5,425
2000A	15,615	2021	5.250-5.375	4,300		615	3,685
2001	84,945	2022	3.000-5.250	3,320		755	2,565
2002 Forward Refunding	251,280	2013	5.000-5.250	135,500		22,360	113,140
2002	55,850	2023	3.000-5.500	32,260		3,030	29,230
2003	40,905	2014	2.750-5.000	25,840		3,375	22,465
2003A	56,515	2016	3.500-5.000	50,690		2,955	47,735
2004	33,570	2024	2.375-4.750	33,570		1,440	32,130
2004 Refunding [2]	13,245	2016	1.875-4.650	9,685		9,685	
2005	116,170	2025	3.500-5.250	116,170			116,170
2006 Forward Refunding	33,090	2016	3.700-5.500	33,090			33,090
2006 Refunding [3]	169,785	2026	3.500-5.000	166,685		4,780	161,905
2007 Refunding	121,220	2028	4.000-5.000		121,220	4,155	117,065
Total General Obligation Bonds	$ 1,248,400			$ 667,280	$ 121,220	$ 71,225	$ 717,275
Tax-Exempt Certificates of Obligation:							
Series 1998	$ 4,315	2018	4.700-5.000	$ 915	$ -	$ 420	$ 495
Series 1998A	36,535	2019	4.000-5.250	10,115		1,980	8,135
Series 1999	4,230	2011	5.750	780		180	600
Series 2000	8,490	2020	4.500-5.000	2,035		370	1,665
Series 2000A	8,810	2021	5.250-5.375	2,425		345	2,080
Series 2000C	6,415	2020	5.000-5.500	5,530		295	5,235
Series 2001	65,195	2014	4.000-5.250	37,990		5,565	32,425
Series 2002	69,930	2023	3.000-5.500	49,250		4,320	44,930
Series 2004	29,525	2024	2.000-5.000	27,915		2,135	25,780
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006 [3]	72,755	2026	3.500-4.370	70,695		2,895	67,800
Series 2007	104,255	2028	4.000-5.000		104,255	12,555	91,700
Total Tax-Exempt Certificates of Obligation	$ 420,990			$ 218,185	$ 104,255	$ 31,060	$ 291,380
Taxable Certificates of Obligation:							
Series 2000B	$ 1,755	2011	7.500-7.550	$ 290		$ 65	$ 225
Total Taxable Certificates of Obligation	$ 1,755			$ 290	$ -	$ 65	$ 225
Tax Notes:							
Series 2007	$ 60,000	2010	3.898	$ 60,000	$ -	$ 60,000	$ -
Series 2007A	21,270	2012	4.000-5.000		21,270	3,345	17,925
Total Tax Notes	$ 81,270			$ 60,000	$ 21,270	$ 63,345	$ 17,925
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2026	5.100-6.020	$ 18,112	$ -	$ -	$ 18,112
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2004B Hotel Occupancy Tax	111,425	2034	2.000-5.000	106,950		106,950	
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500	71,820		245	71,575
Series 2007 Hotel Occupancy Tax Note	5,500	2010	4.040	5,500			5,500
Series 2008 Hotel Occupancy Tax Ref	135,000	2034	Variable		135,000		135,000
Series 2003 Municipal Drainage	44,150	2028	3.500-5.000	39,810		1,185	38,625
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	58,395		1,405	56,990
Series 2001 Municipal Facility Corp	14,465	2020	3.800-5.200	11,090		640	10,450
Convention Series 2005A	129,930	2039	5.000	129,930			129,930
Convention Series 2005B	78,215	2028	4.500-5.310	78,215			78,215
Starbright Industrial Development Corp.	24,685	2033	2.180-5.110	24,160		535	23,625
Total Revenue Bonds	$ 869,452			$ 554,372	$ 135,000	$ 110,960	$ 578,412
Total	$ 2,621,867			$ 1,500,127	$ 381,745	$ 276,655	$ 1,605,217

[1] A portion of the Hotel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through fiscal year 2008 has resulted in an increase of $17,620 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

[2] As of October 1, 2007, the Taxable General Improvement Refunding Bond, Series 2004A was reclassified from governmental activity debt to the Parking Fund. The balance is reflected in the business-type long-term debt table.

[3] As of October 1, 2007, a portion of the General Obligation Bonds, Series 2006 and Certificates of Obligation, Series 2006, were transferred from governmental activity debt to business-type debt via Environmental Services. These balances are reflected in the business-type long-term debt table.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding as of September 30, 2008 is as follows:

Principal and Interest Requirements									
	General Obligation Bonds		Certificates of Obligation		Tax Notes		Revenue Bonds		
Year Ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Annual Requirements
2009	$ 61,065	$ 34,840	$ 25,385	$ 12,957	$ 4,210	$ 783	$ 8,160	$ 28,331	$ 175,731
2010	65,060	32,130	24,170	11,882	4,380	615	13,470	27,286	178,993
2011	68,520	28,925	25,365	10,794	4,555	440	10,058	26,710	175,367
2012	49,160	25,551	27,110	9,527	4,780	212	10,599	26,381	153,320
2013	51,250	23,011	30,290	8,172			10,981	26,019	149,723
2014-2018	201,785	79,292	63,960	28,274			65,749	123,802	562,862
2019-2023	155,425	33,454	60,090	15,369			109,385	104,346	478,069
2024-2028	65,010	7,494	35,235	3,449			131,260	74,538	316,986
2029-2033							126,015	42,300	168,315
2034-2038							77,785	14,211	91,996
2039-2040							14,950	748	15,698
Total	$ 717,275	$ 264,697	$ 291,605	$ 100,424	$ 17,925	$ 2,050	$ 578,412	$ 494,672	$ 2,467,060

Total Principal and Interest Payable within One Year					
Principal	$ 61,065	$ 25,385	$ 4,210	$ 8,160	$ 98,820
Interest	34,840	12,957	783	28,331	76,911
Total	$ 95,905	$ 38,342	$ 4,993	$ 36,491	$ 175,731

Authorized but Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized but Unissued
5/12/2007	Streets, Bridges, and Sidewalks	$ 306,998	$ 27,641	$ 279,357
5/12/2007	Drainage	152,052	16,693	135,359
5/12/2007	Parks, Recreations, Open Space, and Athletics	79,125	59,251	19,874
5/12/2007	Library System	11,025	5,088	5,937
5/12/2007	Public Health Facilities	800	675	125
Total		$ 550,000	$ 109,348	$ 440,652

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program includes 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreations, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation

The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2008 was $76,465,984, which provides a debt ceiling of $7,646,598. The total outstanding debt that is secured by an ad valorem tax pledge is $1,039,105 including $12,300 that is reporting in business-type activities.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90.0% collections (please note that dollar figures in this paragraph are not reflected in thousands).

Interfund Borrowings

In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an alternative to the issuance of external debt to finance those projects/purchases, the City has authorized internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet those needs.

In May 2008, a loan was authorized from the City's Internal Service Fund to the City's Community Services Funds, Tax Increment Reinvestment Zone (TIRZ) #27, to finance the purchase of the draft River North Master Plan, in an amount not to exceed $650. The principal amount of the loan was $648, with quarterly interest to be calculated at the City's pooled investment portfolio rate. The City's rate for the quarter ended September 30, 2008, was 2.6%, resulting in interest of $1. Repayment of the principal and interest on this loan will occur as funding is available from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2008:

Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008
$ -	$ 648	$ -	$ 648

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year-ended September 30, 2008 were approximately $5,108.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Leases (Continued)

The City has entered into various lease purchase agreements for the acquisition of printers, refuse collection containers, self-contained breathing apparatus, a mainframe computer, various fire trucks, golf cars, electrocardiograms, an inventory theft detection system, hybrid vehicles. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Machinery and Equipment	$ 37,501
Less: Accumulated Depreciation	(15,179)
Total	$ 22,322

As of September 30, 2008, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2009	$ 4,630	$ 4,694	$ 9,324
2010	4,472	3,257	7,729
2011	3,235	2,578	5,813
2012	933	2,164	3,097
2013	195	1,880	2,075
2014-2018		1,409	1,409
Future Minimum Lease Payments	13,465	$ 15,982	$ 29,447
Less: Interest	(780)		
Present Value of Future Minimum Lease Payments	12,685		
Less: Current Portion	(4,227)		
Capital Lease, Net of Current Portion	$ 8,458		

MGA-SA has leased from the City certain golf carts (approximately 158 golf carts at September 30, 2008) which are used at their courses. The leases are accounted for as capital leases on MGA-SA's financial statements as well as on the City's. The assets subleased to MGA-SA had a net book value of $479 as of September 30, 2008. MGA-SA remaining lease obligation was $345.

	Principal	Interest	Total
2009	$ 169	$ 10	$ 179
2010	176	4	180
	$ 345	$ 14	$ 359

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt

Business-Type Activity long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System - The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the gross revenues of the Airport System. Gross revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities.

On December 14, 2007, the City issued $82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued $74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects. The Bonds have maturities ranging from 2008 to 2032, with interest rates ranging from 5.0% to 5.3%.

Parking System - The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is issued in the form of revenue bonds or is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of general obligation debt for Parking System related improvements and is paid from revenues derived from the operation of the Parking System. The allocated debt is additionally secured by an ad valorem tax pledge.

In fiscal year 2008, the Taxable General Improvement Refunding Bond, Series 2004, in the amount of $9,685, was transferred from governmental activity funds into the Parking System. This transaction was executed in order to move self-supporting debt into its assigned proprietary funds. In addition to the bond payable, costs of issuance in the amount of $941, a premium in the amount of $762, and defeased debt in the amount of $1,138, were also moved to the Parking System. The net dollar impact on both funds was $8,368, which is reflected on the Statement of Activities under "special items".

Environmental Services - Environmental Services was established on a financially self-supporting basis in 1988. Revenues are received from garbage collection fees which are utilized to pay operating costs and indebtedness. Long-term debt is allocated to Environmental Services on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Environmental Services related improvements and is paid from revenues derived from the operation of Environmental Services. The allocated debt is secured by an ad valorem tax pledge.

In fiscal year 2008, the Environmental Services Fund received proceeds from the Combination Tax and Revenue Certificates of Obligation, Series 2007, in the amount of $2,500. These proceeds will be utilized to provide a Compress Natural Gas fueling facility at the City's Northeast Service Center, and to repair a slope failure at Pearsall Landfill.

Additionally, in fiscal year 2008, a portion of the General Obligation Bonds, Series 2006, and the Certificates of Obligation, Series 2006, were transferred from governmental activity funds to the Environmental Services Fund. The amount of debt moved was $1,360. Cash proceeds in the amount of $1,400 and capital assets related to those issuances were also transferred to the Environmental Services Fund. This transaction was executed in order to move self-supporting debt into its assigned proprietary funds. In addition to the bond payable, costs of issuance in the amount of $3, a premium in the amount of $8, and an arbitrage liability in the amount of $4, were also moved. The net dollar impact between the governmental activity funds and the Environmental Service Fund was ($47), which is reflected on the Statement of Activities under "special items".

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Capitalized Interest Costs - Interest costs incurred on revenue bonds, general obligation bonds, and certificates of obligation totaled $21,220. For fiscal year 2008, an amount of $946 was capitalized for the Airport System, as part of the cost of additions to the Airport System.

Prior Years' Defeased Debt - In prior years, the City advance refunded, prior to maturity, certain general obligation bonds and revenue bonds. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amount scheduled to mature in principal amounts that, when added to interest earned on the Purchase Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2008, $17,875 of previously defeased bonds were outstanding.

The following table is a summary of changes for the fiscal year-ended September 30, 2008 for business-type debt:

Business-Type Long-Term Debt							
	Time of Original Issuance						
Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2007	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2008
Airport System:							
Revenue Bonds:							
Series 2001	$ 17,795	2016	5.375	$ 17,795	$ -	$ -	$ 17,795
Series 2002	92,470	2027	5.000-5.750	89,005		1,275	87,730
Series 2002 PFC	37,575	2027	4.000-5.750	33,350		955	32,395
Series 2003 Refunding	50,230	2013	5.500-6.000	33,420		4,810	28,610
Series 2003B	3,255	2009	2.300-3.000	2,235		1,100	1,135
Series 2005	38,085	2030	3.375-5250	36,405		890	35,515
Series 2006	17,850	2014	5.000	16,385		1,125	15,260
Series 2007	82,400	2032	5.000-5.250		82,400		82,400
Series 2007 PFC	74,860	2032	5.000-5.250		74,860	2,120	72,740
Total Airport System	$ 414,520			$ 228,595	$ 157,260	$ 12,275	$ 373,580
Parking System:							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 22,775	$ -	$ 660	$ 22,115
General Obligation Bonds:							
Series 2004 Refunding [1]	13,245	2016	2.800-4.650		9,685	1,130	8,555
Total Parking System	$ 38,090			$ 22,775	$ 9,685	$ 1,790	$ 30,670
Environmental Services:							
General Obligation Bonds:							
Series 2006 [2]	$ 970	2026	3.500-5.000	$ -	$ 970	$ 30	$ 940
Certificates of Obligation:							
Series 2006 [2]	390	2026	3.500-5.000		390	10	380
Series 2007	2,500	2028	4.000-5.000		2,500	75	2,425
Total Environmental Services	$ 3,860			$ -	$ 3,860	$ 115	$ 3,745
Total	$ 456,470			$ 251,370	$ 170,805	$ 14,180	$ 407,995

[1] As of October 1, 2007, the Taxable General Improvement Refunding Bond, Series 2004 was reclassed from governmental debt to the Parking Fund. The balance is reflected in this table.

[2] As of October 1, 2007, a portion of the General Obligation Bonds, Series 2006 and the Certificates of Obligation, Series 2006, was transferred from governmental activity debt to business-type debt via Environmental Services. The balance is reflected in the table.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, and revenue bonds outstanding at September 30, 2008, are as follows:

	Business-Type Long-Term Debt								
	Airport System			Parking System			Environmental Services		
Year Ending Sept. 30:	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	$ 13,200	$ 19,678	$ 32,878	$ 1,950	$ 1,565	$ 3,515	$ 125	$ 176	$ 301
2010	15,855	19,012	34,867	1,050	1,492	2,542	125	170	295
2011	17,210	18,158	35,368	1,375	1,445	2,820	135	165	300
2012	18,125	17,217	35,342	2,285	1,376	3,661	140	158	298
2013	19,135	16,226	35,361	2,470	1,266	3,736	145	152	297
2014-2018	79,965	66,524	146,489	10,360	4,603	14,963	845	647	1,492
2019-2023	76,120	46,812	122,932	9,045	2,228	11,273	1,080	415	1,495
2024-2028	88,115	24,701	112,816	2,135	123	2,258	1,150	142	1,292
2029-2033	45,855	5,723	51,578						
Total	$ 373,580	$ 234,051	$ 607,631	$ 30,670	$ 14,098	$ 44,768	$ 3,745	$ 2,025	$ 5,770

	Total Principal and Interest Payable within One Year		
	Airport System	Parking System	Environmental Services
Principal	$ 13,200	$ 1,950	$ 125
Interest	19,678	1,565	176
Total	$ 32,878	$ 3,515	$ 301

Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collection containers, refuse collections trucks, brush grappler trucks, and brush tractor/trailer combinations. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. While the garbage containers meet the criteria for capital lease recognition these items were expensed during the current year as their individual costs were below the City's capitalization threshold.

The assets acquired through capital leases for business-type activities are as follows:

Machinery and Equipment	$ 6,518
Less: Accumulated Depreciation	(1,278)
Total	$ 5,240

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases (Continued)

As of September 30, 2008, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

		Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,				
	2009	$ 4,334	$ 204	$ 4,538
	2010	3,947	156	4,103
	2011	3,774	8	3,782
	2012	1,082		1,082
	2013	1,082		1,082
	2014-2018	2,052		2,052
Future Minimum Lease Payments		16,271	$ 368	$ 16,639
Less: Interest		(1,325)		
Present Value of Future Minimum Lease Payments		14,946		
Less: Current Portion		(3,887)		
Capital Leases, Net of Current Portion		$ 11,059		

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

	Beginning Balance	New Issuances	Changes During Year	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 667,280	$ 121,220	$ (71,225)	$ 717,275	$ 61,065
Tax-Exempt Certificates of Obligation	218,185	104,255	(31,060)	291,380	25,315
Taxable Certificates of Obligation	290		(65)	225	70
Tax Notes	60,000	21,270	(63,345)	17,925	4,210
Revenue Bonds	554,372	135,000	(110,960)	578,412	8,160
	1,500,127	381,745	(276,655)	1,605,217	98,820
Unamortized Premium/(Discount)	82,099	12,014	(54,122)	39,991	6,042
Deferred Amount on Refunding	(17,283)	268	6,728	(10,287)	(1,880)
Total Bonds Payable	1,564,943	394,027	(324,049)	1,634,921	102,982
Total Commercial Paper [1]	4,000	6,500		10,500	
Other Payables:					
Accrued Arbitrage Rebate Payable [3]	828	24	(351)	501	
Capital Leases	14,465	2,799	(4,579)	12,685	4,227
Net OPEB Obligation [2]		18,267		18,267	
Compensated Absences	156,796	48,068	(1,247)	203,617	41,463
Notes Payable	56,171	648	(1,861)	54,958	2,118
Other Payables	4,619		(2,304)	2,315	2,315
Total Other Payables	232,879	69,806	(10,342)	292,343	50,123
Total Governmental Activities Long-Term Liabilities	$ 1,801,822	$ 470,333	$ (334,391)	$ 1,937,764	$ 153,105
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	$ -	$ 10,655	$ (1,160)	$ 9,495	$ 1,135
Tax-Exempt Certificates of Obligation		2,890	(85)	2,805	90
Revenue Bonds	251,370	157,260	(12,935)	395,695	14,050
Total Bonds Payable	251,370	170,805	(14,180)	407,995	15,275
Unamortized Premium/Discount	9,842	4,553	(9,144)	5,251	305
Deferred Amount on Refunding	(2,937)	(1,138)	1,122	(2,953)	(583)
Total Bonds Payable	258,275	174,220	(22,202)	410,293	14,997
Other Payables:					
Airport System	242	7	(242)	7	7
Nonmajor Enterprise Funds	7	5	(10)	2	2
	249	12	(252)	9	9
Airport System Arbitrage Rebate Payable [3]	136		(129)	7	7
Nonmajor Enterprise Arbitrage Rebate Payable [3]		5	(4)	1	1
Capital Leases Nonmajor Enterprise Funds	2,678	13,137	(869)	14,946	3,887
Net OPEB Obligation [2]		3,605		3,605	
Accrued Landfill Postclosure Costs [3]	1,475	670	(109)	2,036	275
Compensated Absences	3,867	266		4,133	689
Total Other Payables	8,405	17,695	(1,363)	24,737	4,868
Total Business-Type Activities Long-Term Liabilities	$ 266,680	$ 191,915	$ (23,565)	$ 435,030	$ 19,865

NOTE: The accreted interest through fiscal year 2008 has resulted in an increase of $17,620 in Hotel Tax Revenue Bonds payable in governmental activities. The accreted interest in the amount of $17,620 is reflected on the Statement of Net Assets, but is not reflected in this table.

1 See Note 7, Commercial Paper Programs and Other Borrowings for a description of the commercial paper program.

2 See Note 9, Postemployment Retirement Benefits for a description of the postemployment program.

3 See Note 11, Commitments and Contingencies for a description of the Arbitrage and Landfill Postclosure Care Costs.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year-ended September 30, 2008:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 9,032	$ 32,002	$ 41,034	$ 160,009	$ 201,043
Internal Service Funds		429	429	2,145	2,574
Total Governmental Activities	$ 9,032	$ 32,431	$ 41,463	$ 162,154	$ 203,617

The General Fund accounts for approximately 65.0% of the City's employees; therefore, most of the compensated absences' liability has been liquidated from the General Fund. When a City employee terminates, the fund that their salary was charged to throughout the year will be the same fund that will pay their compensated absences.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport System	$ 356	$ 1,778	$ 2,134
Nonmajor Enterprise Funds	333	1,666	1,999
Total Business-Type Activities	$ 689	$ 3,444	$ 4,133

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation, component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2008, the aggregate principal amounts payable are as follows: seven series of Education Facilities Revenue Bonds in the amount of $110,485; one series of Health Facilities Development Bonds in the amount of $7,540; three series of Industrial Development Revenue Bonds in the amount of $26,250; and two series of Empowerment Zone Development Revenue Bonds in the amount of $39,900.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from, and secured by, a pledge of rental receipts. As of September 30, 2008, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $265,139 and an aggregate principal amount issued of $283,679.

The City has authorized San Antonio Housing Trust Finance Corporation to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the City of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2008, the amount of conduit debt was $28,088.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 at September 30, 2008 was $3,400.

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2008, the aggregate amount of the outstanding loan totaled $14,575. The City is not liable for this debt. The Port submits payment to the City; the City then directly pays HUD for the principal and interest payments when due.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term prepaid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2008, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount issued and payable of $628,850.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas, is obligated in any manner for repayment of the aforementioned bonds, loans or leases. Accordingly, the bonds, loans, and leases are not reported as liabilities in the accompanying financial statements.

CPS Energy

To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2008 these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of issuing the refunding bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt with cash. A bond defeasance occurs when cash is placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation.

At the time of an extinguishment with cash, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheets, the related unamortized costs are expensed and the gain or loss is immediately recognized.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction or addition to the new debt liability. The deferred amount is amortized as a component of interest expense over the shorter remaining life of the refunding or the refunded debt.

As of January 31, 2008, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of CPS Energy;
- Payments of the New Series Bonds;
- Payment of Prior Lien Bonds, including Junior Lien Obligations;
- Payment of the Notes and the Credit Agreement (as defined in the ordinance authorizing Commercial Paper);
- Payment of any Inferior Lien Obligations issued, which are inferior in lien to the New Series Bonds, the Prior Lien Bonds and the Notes and Credit Agreement;
- An annual amount equal to 6.0% of the gross revenue of CPS Energy to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenue of CPS Energy; and
- Any remaining net revenues of CPS Energy in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy, less the value of gas and electric services of CPS Energy used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of CPS Energy to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

The net revenues of CPS Energy are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as Senior Lien Obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

The Junior Lien, Variable-Rate Demand Obligation (VRDO) bonds are debt instruments of the City payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of CPS Energy, subject and subordinate to liens and pledges securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding Commercial Paper Obligations, all as fully set forth in the ordinances authorizing the issuance of the Junior Lien Obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided, and supplied by CPS Energy to the City and all other consumers, which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government code, as amended;
- The interest on, and principal of, all Parity Bonds, as defined in the New Series Bond Ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Parity Bonds;

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

- The interest on, and principal of, the Prior Lien Bonds, including the Junior Lien Obligations and any additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any additional Junior Lien Obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the Ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said Ordinance), and the Credit Agreement (as defined in said Ordinance); and
- Any legal debt or obligation of CPS Energy as and when the same shall become due.

As of January 31, 2008, the Tax-Exempt Commercial Paper (TECP) Ordinance contains, among others, the following provisions:

To secure the payment of TECP principal and interest, a pledge is made of:

- Proceeds from
  - The sale of bonds and additional notes issued for such purposes, and
  - The sale of TECP;
- Loans under and pursuant to the revolving credit agreement; and
- The net revenues of CPS Energy, after payment on New Series Bond requirements and Prior Lien Bond Obligations.

Revenue Bonds

On June 28, 2007, CPS Energy issued $449,410 of New Series 2007 Revenue and Refunding Bonds. Included were par amounts of $403,215 of Revenue Bonds and $46,195 of Refunding Bonds used to refund New Series 1998A Refunding Bonds. The refunding transaction resulted in net present value debt service savings of $2,300, or 4.8% of the par amount of the bonds being refunded. CPS Energy received $419,900 in net proceeds from the issuance of the Revenue Bonds. These proceeds will be used to fund generation, transmission, and electric and gas distribution construction projects.

On February 8, 2007, CPS Energy issued $128,845 of tax-exempt New Series 2006B Revenue Refunding Bonds. On February 9, 2007, the bond proceeds were used to refund $77,100 par value of the taxable New Series 1998B Bonds and $41,730 par value of the taxable New Series 2000B Bonds. At that time, CPS Energy cash defeased $6,500 par value of the taxable New Series 1998B Bonds that could not be advance refunded with tax-exempt debt. The refunding transaction resulted in net present value debt service savings of $6,700, or 5.3% of the par amount of the bonds refunded.

CPS Energy Revenue Bond Summary

Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2008	January 31, 2008
Tax Exempt New Series Bonds, 1994A-2007; 2008-2032	4.7%	$ 2,965,090
Total		2,965,090
Tax Exempt Variable-Rate Series Bonds, 2003-2004, 2024-2033	4.7%	402,000
Total Long-Term Revenue Bonds Outstanding		3,367,090
Less: Current Maturities of Bonds		152,875
Total Revenue Bonds Outstanding, Net of Current Maturities		$ 3,214,215

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2008, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

CPS Energy Principal and Interest Requirements			
Year	Principal	Interest	Total
2009	$ 152,875	$ 159,065	$ 311,940
2010	149,745	151,372	301,117
2011	163,265	143,727	306,992
2012	177,220	135,348	312,568
2013	174,950	126,393	301,343
2014-2018	745,155	502,400	1,247,555
2019-2023	836,935	316,637	1,153,572
2024-2028	600,370	119,728	720,098
2029-2033	366,575	34,877	401,452
Totals	$ 3,367,090	$ 1,689,547	$ 5,056,637

The above table includes Senior Lien and Junior Lien bonds. Interest on the Senior Lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The 2003 Junior Lien bonds were issued as variable-rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2007, the 2004 Junior Lien bonds were remarketed for a three-year term at an interest rate of 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2010. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 2.7% for the 2003 and 2004 Junior Lien Bonds.

The interest rate term mode for the Junior Lien Revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue bonds, or portion thereof, will bear interest at the corresponding daily rate, weekly rate, auction rate, commercial paper rate, term rate, or fixed rate.

The problems associated with the subprime mortgage markets have had a minimal impact on CPS Energy's variable-rate debt. CPS Energy continues to monitor the markets on a daily basis and is in close communication with its remarketing agents, financial advisors and bond counsel.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Long-Term Debt Activity							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2007	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2008
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ -	$ 68,965
1998A Tax Exempt	785,515	2021	4.918	515,495		84,515	430,980
1998B Taxable	99,615	2020	6.343	83,640		83,640	
2000A Tax Exempt	170,770	2010	5.374	8,090		3,210	4,880
2000B Taxable	50,425	2021	7.403	41,730		41,730	
2001 Tax Exempt	115,280	2011	3.843	85,030		22,415	62,615
2002 Tax Exempt	436,090	2017	4.055	436,090		10,050	426,040
2002 Tax Exempt	140,615	2015	4.751	10,525			10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	82,150		295	81,855
2003 Tax Exempt	350,490	2013	3.081	255,320		63,265	192,055
2004 Tax Exempt Junion Lien	160,000	2027	Variable	157,000		5,000	152,000
2005 Tax Exempt	294,625	2020	4.381	294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675			240,675
2005A Tax Exempt	197,335	2025	4.571	197,335			197,335
2006A Tax Exempt	384,185	2025	4.555	384,185			384,185
2006B Tax Exempt	128,845	2021	3.974		128,845	7,900	120,945
2007 Tax Exempt	46,195	2018	4.159		46,195		46,195
2007 Tax Exempt	403,215	2032	4.575		403,215		403,215
				3,110,855	578,255	322,020	3,367,090
Bonds Outstanding:							
Bond Current Maturities				(141,755)	(11,120)		(152,875)
Bond (Discount)/Premium				104,212	30,653	17,760	117,105
Bond Reacquisition Costs				(95,761)	(20,512)	(24,699)	(91,574)
Revenue Bonds, Net				2,977,551	577,276	315,081	3,239,746
Tax Exempt Commercial Paper (TECP)			Variable	350,000	100,000		450,000
Total Long-Term Debt, Net				$ 3,327,551	$ 677,276	$ 315,081	$ 3,689,746

Other Noncurrent Liabilities and Deferred Credits - The long-term portion of the deferred revenue associated with a lease/leaseback was recorded as a deferred credit and is being amortized over the life of the lease.

Other liabilities and deferred credits include the obligations of the Decommissioning Trusts, customer service deposits and advance payments from customers for construction. The long-term portion of the payable to the Port, formerly known as the Greater Kelly Development Authority, for the purchase of electric and gas properties is fiscal year 2000, has also been recorded in other noncurrent liabilities.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved the consolidation of City owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System.

The System - SAWS has been defined in City Ordinance No. 75686 as all properties, facilities and plants currently owned, operated, and maintained by the City and/or the board of trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS provided, however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code.

Funds Flow - City Ordinance No. 75686 requires that gross revenues of SAWS be applied in sequence to (1) payment of current maintenance and operating expenses including a two-month reserve amount based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations; and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Stormwater - The Stormwater Program is a federally mandated program, under the Environmental Protection Agency, for the monitoring of the quality and quantity of pollution found in rain runoff.

The City and SAWS have administered responsibility for the Stormwater Program and have entered into an interlocal agreement, which establishes the entities' respective responsibilities. SAWS' responsibility includes various aspects of data collection and analysis related to the water quality of stormwater as well as responsibility for customer billings and collection. Costs incurred by SAWS related to the Stormwater Program are reflected as expenses and are reimbursed by the City. Such reimbursements are included in operating revenues.

The following information provides a summary of the operations of the Stormwater Program for the year-ended December 31, 2007:

	December 31, 2007
Revenue	$ 3,061
Expense	3,798
Revenues under Expense	$ (737)

As defined by City Ordinance No. 75686, the Stormwater Program is not considered a part of SAWS and as such, revenues generated by the Stormwater Program are used to pay expenses of the Stormwater Program but are not available for debt service or for transfer to the City.

Reuse Contract - SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. According to City Ordinance No. 75686, the revenues derived from the contract have been restricted in use to only reuse activities and are excluded from gross revenue for purposes of calculating any transfers to the City's General Fund.

No Free Service - City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds - On January 23, 2007, SAWS issued $8,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007 through the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.7% to 2.4%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund $550 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On January 23, 2007, SAWS issued $35,375 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 2.7% to 3.4%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund $14,200 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 22, 2007, SAWS issued $311,160 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007. The proceeds from the sale of the bonds were used to (i) refund $49,950 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds), (ii) refund $237,610 in outstanding commercial paper notes, (iii) advance refund $25,775 City of San Antonio Water System Revenue Bonds, Series 2002-A (Series 2002-A Bonds), and (iv) pay the cost of issuing the bonds. In addition to the bond proceeds used to refund $49,950 Series 1997 Bonds, SAWS utilized $25,000 of renewal and replacement funds to redeem the remaining balance of the Series 1997 Bonds. The refunding of the Series 1997 Bonds reduced total debt service payments over the next nine years by approximately $8,900 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,100. The advance refunding of the Series 2002-A Bonds reduced total debt service over the next 11 years by approximately $2,000 and provided an economic gain of approximately $1,500.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005 and Series 2007, outstanding in the amount of $1,153,935 at December 31, 2007, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007 and Series 2007-A outstanding in the amount of $244,585 at December 31, 2007, are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt.

Subordinate Lien Water System Revenue Bonds, comprised of Series 2003-A and 2003-B, outstanding in the amount of $113,990 at December 31, 2007, are collateralized by a subordinate lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien and junior lien debt.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Build, Improve, Extend, Enlarge, and Repair the System	0.60-6.25%	$ 1,512,510

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2007:

	Beginning Balance Jan. 1, 2007	Additions	Reductions	Ending Balance Dec. 31, 2007	Due Within One Year
Bonds Payable	$ 1,283,510	$ 354,605	$ 125,605	$ 1,512,510	$ 27,630
Deferred Amounts for Issuance					
(Discounts)/Premiums/(Losses)	(25,868)	5,119	(1,104)	(19,645)	
Total Bonds Payable, Net	$ 1,257,642	$ 359,724	$ 124,501	$ 1,492,865	$ 27,630

The following table shows the annual debt service requirements on SAWS' debt obligations for each of the next five years and then in five year increments:

Annual Debt Service Requirements
Revenue and Refunding Bonds

Year Ended December 31,	Senior Lien		Junior Lien		Subordinate Lien	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 15,505	$ 56,643	$ 9,750	$ 8,010	$ 2,375	$ 4,765
2009	17,655	55,874	11,990	7,690	2,485	4,665
2010	16,535	55,049	14,305	7,314	2,600	4,562
2011	17,340	54,225	14,745	6,885	2,720	4,453
2012	18,195	53,366	15,205	6,426	2,840	4,339
2013-2017	108,970	251,077	84,335	24,052	16,265	19,804
2018-2022	174,470	215,725	72,110	9,096	20,320	16,080
2023-2027	260,955	160,060	22,145	1,359	25,405	11,427
2028-2032	183,460	100,963			31,740	5,611
2033-2037	219,325	57,871			7,240	303
2038-2040	121,525	9,284				
Total	$ 1,153,935	$ 1,070,137	$ 244,585	$ 70,832	$ 113,990	$ 76,009

Pay-Fixed, Receive-Variable Interest Rate Swap - On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for the SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2007, are included in the following table. SAWS' swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap was structured to match the principal amortization structure and dates of the Series 2003 Bonds. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns) with the index for the variable-rate leg of the swap being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable-Rate Received	Fixed Rate Paid	Market Value at December 31, 2007
Series 2003	May 1, 2033	Bear Sterns FPI	Aaa/AAA/AAA	SIFMA	4.18%	$ (6,277)

The combination of variable-rate bonds and a floating-to-fixed swap creates a synthetic fixed rate issue. The synthetic fixed rate protects against the potential of rising interest rates in conjunction with SAWS' Series 2003 Bond issued in a weekly mode and achieved a lower fixed rate than in the traditional fixed rate bond market at the time of issuance.

Fair Value - The swap had a negative fair value as of December 31, 2007 of $6,277. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of December 31, 2007, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Bear Stearns FPI, was rated AAA by Fitch's Ratings and Standard & Poor's and Aaa by Moody's Investor Service as of December 31, 2007. The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should Bear Stearns FPI credit rating fall below the applicable thresholds in the agreement.

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the notional amount and amortization schedule of the swap to the principal amount and amortization schedule of the Series 2003 Bonds, and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate resets on the Series 2003 Bonds over the life of the issue.

Termination Risk - SAWS may terminate the swap at any time for any reason. Bear Stearns FPI may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured, and Bears Stearns FPI cannot terminate as long as the insurer does not fail to perform. If the swap should be terminated, the Series 2003 Bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt **-** As of December 31, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Pay-Fixed, Receive-Variable Interest Rate Swap
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net	Total
2008	$ 2,375	$ 3,899	$ 866	$ 7,140
2009	2,485	3,817	848	7,150
2010	2,600	3,732	829	7,161
2011	2,720	3,643	810	7,173
2012	2,840	3,550	789	7,179
2013-2017	16,265	16,203	3,601	36,069
2018-2022	20,320	13,157	2,924	36,401
2023-2027	25,405	9,349	2,078	36,832
2028-2032	31,740	4,591	1,020	37,351
2033	7,240	248	55	7,543
Total	$ 113,990	$ 62,189	$ 13,820	$ 189,999

Debt Covenants - SAWS is required to comply with various provisions included in the ordinance which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinance.

Prior Years Defeasance of Debt - In current and prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2007, $125,540 of bonds outstanding are considered defeased.

Note Payable **-** During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights valued at $3,593 from certain CPS Energy owned properties. In exchange for these water rights, a note was signed for 116 payments of $40 at an interest rate of 7.5%. The liability as of December 31, 2007 is reflected in the Statement of Net Assets for both the current portion of $453 and long-term amount of $118. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2008	$ 453	$ 27	$ 480
2009	118	2	120
Total	$ 571	$ 29	$ 600

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Accrued Vacation Payable - SAWS records an accrual for vacation payable for all full-time employees and pays unused vacation hours available at the end of employment with the final paycheck.

	Liability Balance at Beginning of Fiscal Year	Current-Year Accruals	Payments	Liability Balance at End of Fiscal Year	Estimated Due Within One Year
Year Ended December 31, 2007	$ 5,220	$ 4,033	$ (3,541)	$ 5,712	$ 3,541

Note 7 Commercial Paper Programs

Primary Government (City)

Commercial Paper

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2008, $10,500 of Commercial Paper Notes are outstanding with various maturities ranging from 1 to 270 days.

The Commercial Paper Notes are supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider is to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider has issued its irrevocable, direct-pay Letter of Credit for the account of the City and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the Commercial Paper Notes is Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent is Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enables the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes shall mature later than August 1, 2017. Under the terms of the Letter of Credit, the City may borrow up to an aggregate amount not to exceed $50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement will expire April 30, 2012, unless previously terminated or extended. As of September 30, 2008, there have been no borrowings under the Letter of Credit.

The Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement included in the Letter of Credit. The Commercial Paper Notes are secured by and payable from a pledge of and lien on two-thirds of one-eighth of one percent (1/8 of 1.0%) sales and use tax in an amount not to exceed $90,000.

Commercial Paper				
Issue	Balance Outstanding October 1, 2007	Additions	Deletions	Balance Outstanding September 30, 2008
Series A (2007)	$ 4,000	$ 6,500	$ -	$ 10,500

Amounts are expressed in thousands

Note 7 Commercial Paper Programs (Continued)

CPS Energy

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. The program's scheduled maximum maturities cannot extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the amended revolving credit agreement, effective September 6, 2007, CPS Energy may borrow up to an aggregate amount not to exceed $450,000 for the purpose of paying principal due under the TECP. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012, and may be renewed for an additional year.

As of January 31, 2008, there have been no borrowings under the revolving credit agreement. The TECP is secured by the net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations.

CPS Energy issued $100,000 of TECP on September 10, 2007. These proceeds will be used to fund generation projects. The current outstanding TECP balance as of January 31, 2008, is $450,000.

TECP Outstanding	$ 450,000
TECP New Money Issues	$ 100,000
Weighted Average Interest Rate of Outstanding TECP	3.2%
Average Life of Outstanding TECP (Approximate Number of Days)	109

San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements.

On November 17, 2005, the City Council of the City of San Antonio approved the expansion of the commercial paper program from $350,000 to $500,000. The increase in the program provides additional interim financing capacity for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days.

The City has covenanted in the ordinance authorizing the commercial paper program (the Note Ordinance) to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement.

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Amounts are expressed in thousands

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

Commercial Paper (Continued)

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A.
- Issuing and Paying Agency Agreement with the Bank of New York.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the Revolving Credit Agreement.

Commercial paper notes of $100,000 are outstanding as of December 31, 2007. The proceeds of the notes have been used solely for financing of capital improvements. Consistent with prior years, commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Revolving Credit Agreement. Interest rates on the notes outstanding at December 31, 2007 range from 3.1% to 3.7% and maturities range from 29 to 131 days. The outstanding notes had an average rate of 3.3% and averaged 86 days to maturity.

The following summarizes transactions of the program for the year-ended December 31, 2007.

	Beginning Balance January 1, 2007	Additions	Reductions	Ending Balance December 31, 2007
Tax Exempt Commercial Paper Notes	$ 237,360	$ 115,000	$ 252,360	$ 100,000

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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 229,547	$ 29,050	$ 58,101	$ 87,151
	Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 244,530	$ 14,681	$ 30,538	$ 45,219
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Defined Benefit Agent Plan	$ 65,078	$ 2,074	$ 2,386	$ 4,460
	[1] PMLIC Contract	Single Employer Defined Benefit Plan	$ 63,462	$ -	$ 4,710	$ 4,710
CPS Energy	[2] CPS All Employee Plan	Single Employer Defined Benefit Plan	$ 209,070	$ 10,378	$ 22,841	$ 33,219

[1] Plan year ended December 31, 2007

[2] Fiscal year ended January 31, 2008

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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund was amended on October 1, 2007. The Pension Fund is administered by a nine-member board of trustees (Board), which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City of San Antonio as established by *Governmental Accounting Financial and Reporting Standards* and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Plan is provided in the summary plan description. At September 30, 2008, membership of the Pension Fund consisted of:

	2008
Retirees and beneficiaries receiving benefits	1,983
Active participants	3,622
Total	5,605

Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. As of October 1, 2007, employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. The retirement annuity computation (Annuity Computation) for employees retiring after September 30, 2007 is 2¼ percent of such average for each of the first 20 years served, plus 5 percent of the member's average total salary for each of the next seven years, plus two percent of the member's average total salary for each of the next three years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87½ percent of the member's average total salary. As of October 1, 2007, the minimum monthly pension provided to a member or the member's beneficiaries is $1,850 (please note figure not reflected in thousands). If there is more than one beneficiary, the minimum pension is divided between them.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2007, permits retiring members who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years or 48 months and a reduced annuity payment. For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

There is also a provision for a thirteenth and fourteenth pension check. At the end of each fiscal year, the Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year). Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund met the criteria for the thirteenth and fourteenth checks for the year-ended September 30, 2007, but it did not meet the criteria for 2008. The Board did approve a thirteenth and fourteenth check based on the investment returns for the five years ended September 30, 2007. The checks were issued in November of 2007.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. The spousal death benefit for a spouse who married a retiree after retirement and less than five years but more than 2½ years prior to the date of the retiree's death is $2,500 (please note figure not reflected in thousands), if there are no other beneficiaries.

Effective October 1, 2007, the Pension Fund provides a disability annuity equal to 87.5% of average total salary, if the member suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

The surviving spouse of an active member may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring member. The maximum service credit allowed in determining the spousal BackDROP lump-sum is 30 years.

As of October 1, 2007, the estate of an active member who dies and does not leave a beneficiary will receive either 10 times the amount of an annuity computed according to the Annuity Computation mentioned above using the deceased member's service credit and average total salary as of the date of death or the deceased member's contributions that were picked up by the City. Effective October 1, 2007, the estate of a retired member who dies and does not leave a beneficiary will receive a lump-sum benefit equal to 10 times the amount of the annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability annuity and any lump-sum payments paid to the retiree.

The Pension Fund also provides benefits when an eligible member is killed in the line of duty. The member's surviving spouse and dependent children are entitled to a total pension equal to the member's base salary at the time of death.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, received an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1997, received an increase equal to 100.0% of the increase in the CPI up to 8.0%, and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1997 received an increase equal to 75.0% of the increase in the CPI. On October 1, 2007, a special cost of living increase of $200 per month (please note figure not reflected in thousands) was awarded to members who retired prior to October 1, 1989 or their beneficiaries. If there is more than one beneficiary, the special COLA is divided between them. The cost of living increase is awarded prior to determining the minimum monthly pension.

The Pension Fund is funded in accordance with Texas state statutes. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2008. The employee contribution rate was 12.3% in 2008. New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new member contributes to the Pension Fund upon becoming eligible. Beginning October 1, 2006, the City began matching the contributions of new fire fighters and police officers during the probationary period.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The annual required contributions for fiscal year 2008 were determined as part of the October 2007 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) a projected annual salary increase of 4.2%. Both (a) and (b) include inflation components of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2007 was 8.7 years which, as reported under GASB guidelines, does not consider the assumption of payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Contribution requirements are established by state law, and are not actuarially determined. Contributions for the year-ended September 30, 2008 are as follows:

	2008	
		Percentage of Covered Payroll
Employer	$ 58,101	24.6%
Employee	29,050	12.3%
Total	$ 87,151	

The Board of the Pension Fund has historically recommended changes to benefits provided by the governing statute controlling the Fund that are actuarially prudent, keeping in mind the goal of reducing the unfunded liability of the Pension Fund over time. The Legislative Program has worked by soliciting the input of all affected interest groups and the advice of external professionals to reach agreement on a package of benefits that is actuarially prudent.

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

This policy reflects the current statement of Board policy and may be changed at any time by the current Pension Board or any future Board.

The City of San Antonio is responsible for funding the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed by the Pension Fund and the amount required to pay such benefits.

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

On October 1, 2007, new legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree's death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a $200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a $1,850 minimum monthly pension (vi) the expansion of the "BackDROP" lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor's ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2007, is the agent for 827 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

At its December 8, 2007 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS' Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year-ended December 31, 2007 resulted in a $317,700 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase-in option the rate would be 13.0% for calendar year 2009.

During fiscal year 2008, the City created a work plan to review and address the changes made by TMRS, was successful in obtaining a voting seat on the TMRS Board, and conducted six focus groups with employees and retirees that resulted in City employees, as well as retirees, being mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

The City also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS' report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased-in approach in order to increase contributions gradually to the full rate. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.54%, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 30-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new 30-year period. Currently, the unfunded actuarial liability is amortized over a constant 30-year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (512) 476-7577.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2006, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2007.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 821 administered by TMRS, an agent multiple-employer public employee retirement system.

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Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to the establishment of the plan. Monetary credits for service since the plan began are a percentage (100.0%, 150.0%, 200.0%) of the employee's accumulated contributions. In addition, SAWS can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount that when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 3.0% of salary. SAWS' matching percent ratio is currently 1 to 1, as adopted by SAWS. Under the state law governing TMRS, the actuary annually determines SAWS' contribution rate (see summary of TMRS's Actuarial Assumptions and Methods at the end of Note 8) using the unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year.

The normal cost contribution rate finances the currently accruing monetary credits due to SAWS matching percent, which are the obligation of SAWS as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

Both the employees and SAWS make contributions monthly. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis of the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006, valuation is effective for rates beginning January 2008).

TMRS
Schedule of Contributions

	2007
Employer Contribution	$ 2,386
Employee Contribution	$ 2,074
Employer Contribution Rate	3.5%

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Changes to Actuarial Assumptions - At its December 8, 2007 meeting, the TMRS board of trustees adopted actuarial assumptions to be used in the actuarial valuation for the year-ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of the provisions adopted by a participating government. Two-thirds of governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. SAWS adopted the Updated Service Credit provision in 1992, on a repeating basis. Additionally, SAWS adopted annuity increases for its retirees, on a repeating basis in 1992 equal to 70.0% of the change in the consumer price index.

For the December 31, 2007 valuation, the TMRS board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the board also adopted a change in the amortization period from a 25 year - open period to a 25 year - closed period.

TMRS board of trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contributions rate in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, TMRS also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS has elected to increase the amortization period to 30 years and to transition the increase in its contribution rate over the eight-year phase-in period.

TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7.0% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7.0% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, form an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases to SAWS contributions rates, following the December 31, 2009 actuarial valuation.

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets to Principal Financial Group.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. Twenty years of vesting service regardless of age, or
2. Five years of vesting service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of vesting service. Average compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31st, out of the last ten compensation years prior to normal retirement date, which gives the highest average.

The normal retirement benefit under the Principal Financial Group contract is equal to the following:

1. 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
2. 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.4% of the average compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled. Benefits for retired employees are fully guaranteed at retirement. The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Financial Group (PFG). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method estimates the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement age. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. As the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuarial valuation which was performed for the plan year-ended December 31, 2006, reflects an unfunded frozen initial liability of $15,458.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

If the Normal Cost or Unfunded Frozen Initial Liability becomes negative through the normal operation of the plan, the Unfunded Frozen Initial Liability will be reestablished using the Entry Age Normal method. If the reestablishment would result in a negative Normal Cost or Unfunded Frozen Initial Liability, the method will be changed to the aggregate method. If the actuarial value of assets exceeds the total present value of benefits, the Aggregate Normal Cost will be zero. Then the Frozen Initial Liability will be reestablished when a positive Entry Age Normal unfunded liability results from a change in assumptions or a plan amendment. A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

SAWSRP Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal - Frozen Initial Liability Period
Amortization Method	Level Dollar
Remaining Amortization Period	35 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Rate of Return	8.0%
Inflation Rate	None
Salary Scale	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Cost of Living Adjustments	None
Wage Base Increase	4.0% each year until retirement
Postemployment Benefits	None

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Financial Group, 711 High Street, Des Moines, Iowa 50392 or by calling (800) 986-3343.

SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service.

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

The plan is sponsored by and may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the General Manager and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees. Its assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee.

The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained by contacting Employee Services at CPS Energy by email at BPSiller@CPSEnergy.com. Plan net assets had a market value of $1,100,000 at December 31, 2007.

In addition to the defined-benefit pension plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension Plan due to federal tax restrictions on benefit amounts. The benefits due under those Restoration Plans have been paid annual by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were $150 for fiscal year 2008. These costs were recorded when paid.

Funding Policy - The current policy of CPS Energy is to establish funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are normally fully vested in CPS Energy's contribution after completing seven years of credited service or upon reaching age 40. Employee contributions commence with the effective date of participation and continue until normal or early retirement, completion of 44 years of benefit service, or termination of employment. The employee contribution interest rate was 8.0% for fiscal year 2008.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For fiscal year 2008, the amount to be funded was established using a general target near the 20-year funding contribution level as determined by the Plan's actuary. CPS Energy's contributions in relation to the annual required contribution (ARC) amounted to 10.4% of covered payroll in fiscal year 2008.

Annual Pension Cost and Net Pension Obligation - CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2008 is presented below. The NPO may be either positive, reflecting a liability, or negative, reflecting an asset. The term net pension obligation, as used in this Note, refers to either situation.

	January 31, 2008
Annual required contribution	$ 20,868
Annual pension cost	20,868
Employer contributions in relation to ARC	(22,841)
Decrease in net pension obligation	(1,973)
Net pension obligation - beginning of year	
Net pension obligation - end of year	$ (1,973)

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

Funded Status and Funding Progress - The funded status of the Plan as of January 1, 2007, valuation date was as follows:

		January 1, 2007
Actuarial value of plan assets (a)	$	1,012,067
Actuarial accrued liability (b)		1,041,471
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$	29,404
Funded ratio (a) / (b)		97.2%
Covered payroll (c)	$	209,070
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))		14.1%

The schedule of funding progress, presented as required supplementary information, presents multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Actuarial valuation methods used for January 1, 2007, 2006 and 2005 included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial accrued liability, and (c) the level dollar open for amortization of pension service costs. The remaining amortization period for January 1, 2006, was 29.4 years. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods.

The actuarial assumptions were changed for January 1, 2007, as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data. The assumed termination, retirement, mortality, base salary increases and overtime rates were updated to reflect recent experience and future expectations, and a separate incentive pay assumption was adopted based on current policies and expectations. The changes in actuarial assumptions increased the actuarial accrued liability as of January 1, 2007, by $77,700 (from $964,300 under the prior assumptions to $1,000,000 under the new assumptions) and increased the employer normal cost from 8.0% of reported earnings to 9.8% of reported earnings.

Significant actuarial assumptions used for the January 1, 2007, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 5.8%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Three-Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation, as required by GASB Statement No. 27.

Three-Year Trend Information										
Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In Relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police	2006	$ 51,614			$ 51,614	$ (51,614)				100.0%
Pension Fund City	2007	54,952			54,952	(54,952)				100.0%
of San Antonio	2008	58,101			58,101	(58,101)				100.0%
TMRS -	2006	$ 27,077			$ 27,077	$ (27,077)				100.0%
City of	2007	28,455			28,455	(28,455)				100.0%
San Antonio	2008	30,538			30,538	(30,538)				100.0%
CPS All	2006	$ 7,162			$ 7,162	$ (7,162)				100.0%
Employee Plan [1]	2007	10,051			10,051	(10,051)				100.0%
	2008	20,868			20,868	22,841	(1,973)			109.5%
TMRS -	2005	$ 2,101			$ 2,101	$ (2,101)				100.0%
SAWS [2]	2006	2,197			2,197	(2,197)				100.0%
	2007	2,386			2,386	(2,386)				100.0%
PMLIC -	2005	$ 3,689			$ 3,689	$ (3,689)				100.0%
SAWS [2]	2006	4,575			4,575	(4,575)				100.0%
	2007	4,710			4,710	(4,710)				100.0%

[1] Fiscal year-ended January 31, 2008

[2] Plan year-ended December 31, 2007

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2007, by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Return - City	7.0%
Investment Return - SAWS	7.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation At	3.0%
Cost of Living Adjustments	2.1%

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Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits

Primary Government (City)

Plan Description

In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first of the two programs is a health insurance plan, which provides benefits for all nonuniformed City retirees and for all pre-October 1, 1989 uniformed (fire and police) retirees, through a single-employer defined benefit plan administered by the City. This plan may be amended at any time by the City Council. Currently, there are 5,976 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan. An employee retiring at age 60 must have at least 20 years or service with the City and a nonuniformed City employee retiring at age 60 or over must have at least 5 years of service with the City. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. At September 30, 2008, there were 1,485 retirees participating in the program. Of the 942 participating Medicare retirees, 228 participate in a fully insured Medicare HMO and 714 participate in a self-insured Medicare PPO which pays 100% of eligible expenses after the member has satisfied a $125 Medicare deductible and a $1,000 Carve Out Coordination of Benefit limit. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. Non-Medicare retirees are provided a choice of three PPO Medical plans each with separate deductible and coinsurance amounts.

Funding Policy

The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, shared on a targeted 67.0% City, 33.0% retiree cost allocation. For retirees, total program expenses were $11,050 of which $9,873 were medical claims. For the year-ended September 30, 2008, total contributions were as follows:

Total Contributions	
City	$ 7,759
Retiree Premiums	3,291
Total Contributions	$ 11,050

No contributions were made in fiscal year 2008 to prefund benefits.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. As of September 30, 2008, the City received $316 in payments. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under the City's plan.

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Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year-ended September 30, 2008, the City's annual postemployment benefits other than pension (OPEB) cost was equal to its annual required contribution (ARC) to the plan. The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial balance over thirty years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year-ended September 30, 2008:

Annual Required Contribution	$	29,786
Annual OPEB costs		29,786
Contributions made	$	(7,914)
Increase in net OPEB obligation		21,872
Net OPEB obligation - October 1, 2007		
Net OPEB obligation - September 30, 2008	$	21,872

The City's annual OPEB cost, the percentage cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 were as follows:

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$ 29,786	26.6%	$ 21,872

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Below are the health care cost trend assumptions used for the City's January 1, 2006 actuarial study for the fiscal year-ended September 30, 2008.

City's Health Care Cost Trend Assumptions

Year	Medical	Prescription Drugs
2006	10.0%	12.0%
2007	9.0%	11.0%
2008	8.0%	10.0%
2009	7.0%	9.0%
2010	6.0%	8.0%
2011	5.0%	7.0%
2012	5.0%	6.0%
2013 +	5.0%	5.0%

In the January 1, 2006 actuarial valuation, the projected unit credit (level dollar) actuarial cost method was utilized to determine the City's OPEB. Under this method, the normal cost is calculated by allocating the present value of projected benefits uniformly over the expected future working life of each employee. The investment return assumption (discount rate) of 4.5% was used, based on the expected long-term investment return on City general assets. The City will not be funding the ARC at this time. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over a thirty year open period. The remaining amortization period at September 30, 2008 is thirty years.

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on evaluation of City retiree's enrolled in the City's retiree plan, versus those enrolled in TMRS. Numerous City retirees are former military, or are able to obtain healthcare through spouses insurance, etc.

Fire and Police Retiree Health Care Fund

Plan Description - The second postemployment benefit program of the City the Fire and Police Retiree Health Care Fund, San Antonio (Health Care Fund) is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan (Plan). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City of San Antonio retiring after September 30, 1989. Authority to establish and amend the plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Fund. The statutory trust is governed by a board of trustees that meets on a monthly basis. The board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The Health Care Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan. WEB-TPA Employer Services, LLC serves as the third party administrator for the Health Care Fund. Additional administrative services were provided to the Health Care Fund by PTRX, Inc. during fiscal year 2008.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Contributions - Since its inception, the Health Care Fund has been funded primarily by contributions from the City and City active firefighters and police officers, as part of the compensation for services rendered by the union members, and by contributions made by retirees for their dependents. Effective October 1, 2007, the board implemented state-mandated changes to increase contributions from the Plan's single employer, the City, and plan members in order to reduce actuarially determined funding deficits and ensure the existence of the Fund for future retired firefighters and police officers. The increased contributions were initiated to take effect over a span of years through October 2011. The state-mandated changes also called for a decrease in the level of benefits.

The contribution amounts for each fiscal year, beginning October 1, 2007, are based on statutory contribution rates and on the average member salary expected for that fiscal year, which is to be determined by the Health Care Fund's actuary. For the years ending September 30, 2008, 2009, 2010, 2011, and years thereafter, the specified employee contribution rates were 2.0%, 2.7%, 3.4%, 4.1% and 4.7%, respectively. The City's contributions will be set at 9.4% of the specified wage base. The table below summarizes the actuary's determinations of the contribution amount for the fiscal year-ended September 30, 2008:

Biweekly Contributions:	
Active Fire and Police Members	$ 46.62
City of San Antonio for Each Member	$ 219.13
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	$ 101.30

Total contributions by active firefighters and police officers were $4,265 for the year ended September 30, 2008.

Membership in the Plan consisted of the following at September 30, 2008:

Retirees and Beneficiaries Receiving Benefits	2,666
Active Plan Members	3,579
Total Membership	6,245

Funding Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuations follows:

Valuation Date	10/1/2007
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	Open, 30 Years
Asset Valuation Method	5-Year Adjusted Market Rate
Actuarial Assumptions:	
Investment Rate of Return	8.0% *
Health Care Cost Rate Trend:	10.0% Initial
	5.5% Ultimate

* Assumed Investment rate of return consists of 4.0% net real rate of return plus 4.0% inflation.

CPS Energy

CPS Energy provides certain health and life insurance benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans:

- City Public Service of San Antonio Group Health Plan (Health Plan) - a contributory group health plan that provides health, dental and vision benefits.
- City Public Service of San Antonio Group Life Insurance Plan (Life Plan) - a contributory plan that provides life insurance benefits.
- City Public Service of San Antonio Group Disability Plan (Disability Plan) - an employer funded plan that provides disability income benefits.

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee. These plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Employee Services at CPS Energy by email at BPSiller@CPSEnergy.com.

Prior to fiscal year 2008, the Employee Benefit Plans were reported as component units of CPS Energy, and their financial results were blended with those of CPS Energy. In order to properly implement GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008. The financial statements for these Plans have been separately audited.

Funding Policy - The funding requirements for both the Plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by CPS Energy.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2¼% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $2,600 in fiscal year 2008. Prior to fiscal year 2008, CPS Energy reimbursed a percentage of the Medicare Part B monthly premium to certain retirees and their spouses enrolled in Medicare Part B. In fiscal year 2008, in place of the reimbursement, Health Plan premiums for retirees were reduced to cover a portion of their cost for Medicare Part B.

CPS Energy's contributions in relation to the ARC for the Health Plan amounted to 21.0% of covered payroll in fiscal year 2008. In fiscal year 2008, CPS Energy elected to advance fund $30,000 of the Health Plan AAL.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain Plan participants. The Plan began receiving subsidy payments in the third quarter of fiscal year 2007; these payments totaled $771 for fiscal year 2008. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under CPS Energy's Plan.

Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2¼% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $69 in fiscal year 2008 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.2% of covered payroll in fiscal year 2008.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.5% of covered payroll in fiscal year 2008.

Annual OPEB Cost and Net OPEB Obligation - CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation and adjustments to the ARC for the Health, Life and Disability Plans. The annual OPEB cost was $13,377 for fiscal year 2008. The following table shows the components of CPS Energy's annual OPEB cost for fiscal year 2008, the contributions in relation to the ARC, and changes in the net OPEB obligation for each of the Plans. Since GASB Statement No. 45 was implemented prospectively, there was a zero net OPEB obligation at the beginning of fiscal year 2007. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this Note, refers to either situation.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

	Health Plan	Life Plan	Disability Plan	Total
Annual required contribution	$ 13,181	$ -	$ 209	$ 13,390
Interest on net OPEB obligation	71	(7)	9	73
Adjustment to annual required contribution	(84)	8	(10)	(86)
Annual OPEB cost	13,168	1	208	13,377
Contributions in relation to ARC	(43,864)	(349)	(291)	(44,504)
Decrease in net OPEB obligation	(30,696)	(348)	(83)	(31,127)
Net OPEB obligation - beginning of year	893	(90)	106	909
Net OPEB obligation - end of year	$ (29,803)	$ (438)	$ 23	$ (30,218)

CPS Energy's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for fiscal year 2008 for each of the Plans were as follows:

	Health Plan	Life Plan	Disability Plan	Total
Annual OPEB cost	$ 13,168	$ 1	$ 208	$ 13,377
Percentage of annual OPEB cost contributed	333.1%	27007.3%	140.0%	332.7%
Net OPEB obligation	$ (29,803)	$ (438)	$ 23	$ (30,218)

Funded Status and Funding Progress – CPS Energy began partial funding of projected future benefits in 1992. The funded status of the Plans as of the January 1, 2007, valuation date was as follows:

	Health Plan	Life Plan	Disability Plan
Actuarial value of plan assets (a)	$ 150,818	$ 47,809	$ 3,925
Actuarial accrued liability (b)	220,691	31,219	5,211
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 69,873	$ (16,590)	$ 1,286
Funded ratio (a) / (b)	68.3%	153.1%	75.3%
Covered payroll (c)	$ 209,070	$ 177,558	$ 177,558
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	33.4%	-9.3%	0.7%

Actuarial Methods and Assumptions – Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The schedules of funding progress, presented as required supplementary information, present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

For the Health Plan, the actuarial cost method used was the projected unit credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method, which is intended to approximate the funding progress of the Plans.

The amortization method used for all three Plans was the level dollar open method. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods. The asset valuation method used for all three Plans was the five-year smoothed market valuation method.

A factor that significantly affected the identification of trends from calendar-year 2006 to calendar-year 2007 was a change in actuarial assumptions for termination, retirement, mortality, base salary increases, overtime and incentive pay. Significant actuarial assumptions used in the calculations for January 1, 2007, included (a) a rate of return on the investment of present and future assets of 8.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 4.0% for the Disability Plan, (c) projected salary increases for the Health Plan ranging from 4.1% to 10.5% depending on age for base and other salaries and an inflation rate for salary increases of 3.5% for the Life and Disability Plans, and (d) medical cost increases projected at 9.5% for 2007 decreasing to 5.5% in 2016 and thereafter.

San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for eligible retirees, their spouses, and their dependents through a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the OPEB provisions is vested in the SAWS board of trustees.

The eligibility requirements for participation in plan are dependent upon initial hire date and retirement eligibility as follows:

Hired prior to September 1, 2002:
- 60 years old and at least five years of credible combined service, or
- No age requirement and at least 20 years of credible combined service

Hire on or after September 1, 2002:
- 60 years old and at least ten years of credible combined service, or
- No age requirement and at least 20 years of credible combined service with at least ten years of service with SAWS

For participants not eligible to retire as of December 31, 2007, the later of the following:
- 55 years old and at least ten years of service with SAWS, and
- Earlier of 60 years old and ten years of service with SAWS, or no age requirement and 20 years of credible combined service with at least ten years of service with SAWS.

Retirees can purchase coverage for their spouse at SAWS' group rates. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

The following is the participant summary as of January 1, 2007 (the most recent actuarial valuation date):

Active employees	1,558
Retired employees	539
Spouses of retired employees	392
Total	2,489

Funding Policy - The contribution requirements of plan members and SAWS are established and may be amended by the SAWS board of trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' required contribution will be based on a projected pay-as-you-go financing requirement, with an additional amount to prefund benefits as determined annually by SAWS' board of trustees. It is currently the intention of SAWS to phase-in full funding of the actuarially determined annual required contribution over a five year period beginning in 2008.

Plan members' required contributions vary depending on the health plan selected by the retiree as well as the number of years of service at the time of retirement. For the year-ended December 31, 2007 SAWS' contribution to the plan equaled the current premiums of $4,479, while plan members receiving benefits contributed $116 through their required contribution. No contributions were made in 2007 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation - For the year-ended December 31, 2007, SAWS' annual OPEB cost is calculated based on the annual required contributions (ARC). The following table shows the components of SAWS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year-ended December 31, 2007:

Annual Required Contribution	$ 17,696
Annual OPEB costs	17,696
Contributions made	$ (4,479)
Increase in net OPEB obligation	13,217
Net OPEB obligation - January 1, 2007	
Net OPEB obligation - December 31, 2007	$ 13,217

SAWS' annual OPEB cost, the percentage cost contributed to the plan, and the net OPEB obligation for 2007 were as follows:

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$ 17,696	25.3%	$ 13,217

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

In the January 1, 2007 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 5.8%, which is a blended rate of the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The investment return assumes SAWS will phase-in fully funding the annual required contribution over the next five years. The UAAL is being amortized as a level dollar amount over thirty years. The remaining amortization period at December 31, 2007 was twenty-nine years.

Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

Year Beginning January 1	Medical Annual Rate of Increase	Prescription Drugs Annual Rate of Increase
2007	8.0%	12.0%
2008	7.0%	11.0%
2009	6.0%	10.0%
2010	5.0%	9.0%
2011	5.0%	8.0%
2012	5.0%	7.0%
2013	5.0%	6.0%
2014+	5.0%	5.0%

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

Units 1 and 2 - CPS Energy is one of three participants in STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,360 megawatts. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. The other participants in STP are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin.

CPS Energy's 40.0% ownership in STP represents 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STPNOC, a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

Amounts are expressed in thousands

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Units 3 and 4 Project - On June 28, 2006, NRG announced plans to construct two additional reactors at the currently functioning two-unit STP site (STP Units 3 and 4). With this addition, energy production at that site is projected to increase by 2,700 megawatts. In response to NRG's announcement, in July 2006 CPS Energy formed a cross-functional task force of more than 30 in-house staff from various disciplines and consultants who conducted an extensive feasibility study comparing the proposed development of new nuclear plants against CPS Energy's alternatives for other sources of baseload generation (Feasibility Study). The initial results of the Feasibility Study were reported to the CPS Energy Board in early 2007, and an ongoing due diligence team has been established to monitor project developments and make additional recommendations regarding CPS Energy's potential participation in STP Units 3 and 4.

On September 24, 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement (Supplemental Agreement) under which CPS Energy elected to participate in the development of STP Units 3 and 4 pursuant to the terms of the current participation agreement among the STP owners and agreed to potentially own up to 50.0% of STP Units 3 and 4. The Supplemental Agreement provides for CPS Energy to reimburse NRG for it's pro rata share, based on its ownership percentage, of initial project costs incurred and to pay it's pro rata share of future development costs. The Boards of CPS Energy and NRG subsequently approved the Supplemental Agreement, which became effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 does not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP; however, should both parties decide to withdraw from the project, the project shall cease and the parties shall share proportionately the termination costs, including demobilization and cancellation charges. If only one party decides to withdraw, the withdrawing party is liable for payment obligations incurred up to 30 days of issuing the withdrawal date.

Also on September 24, 2007, STPNOC, on behalf of CPS Energy and NRG, filed a combination construction and operating license application (CCOLA) to build and operate STP Units 3 and 4 with the NRC. The CCOLA for STP Units 3 and 4 was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced that it had accepted the CCOLA for review.

As a result of CPS Energy's commitment to participate in the early project development phase of STP Units 3 and 4 and to pay its proportionate share of the costs associated with development and filing of the CCOLA, the costs associated with the Feasibility Study were accumulated in a deferred account during the evaluation process. As of January 31, 2008, the feasibility costs, along with other STP Units 3 and 4 project costs are included in construction-in-progress.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC (NINA). NRG has an 88.0% ownership in NINA, while Toshiba Corporation owns the remaining 12.0%. Upon the formation of NINA, NRG contributed its 50.0% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA will now be CPS Energy's partner for co-development of STP Units 3 and 4.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A Master Worker Nuclear Liability policy, with a maximum limit of $300,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Insurance (Continued)

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1,100,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain approximately $2,800,000 of nuclear property insurance, which is above the legally required amount of $1,100,000, but is less than the total amount available for such losses. The $2,800,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and $2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL.

Nuclear Decommissioning

CPS Energy, together with the other owners of STP, files a certificate of financial assurance with the Nuclear Regulatory Commission (NRC) for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study conducted by the owners in 2007 showed that CPS Energy's share of decommissioning costs was $385,200 in 2007 dollars. Based on the level of funds accumulated in the 28.0% Decommissioning Trust and an analysis of this cost study, CPS Energy determined that no annual contribution will be required in fiscal year 2009. In accordance with a decommissioning study in 2004, which reflected a cost of $347,500 in 2004 dollars for CPS Energy's share of decommissioning costs, CPS Energy's minimum annual contribution requirement was $5,000 for fiscal year 2008. Decommissioning costs for both the 2007 and 2004 studies included a 10.0% contingency component as required to comply with the PUCT.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% portion in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2007, CPS Energy had accumulated approximately $277,000 in that 28.0% Trust. Based on the most recent annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $87,300 at December 31, 2006. No financial assurance calculation was required at December 31, 2007.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, American Electric Power (AEP). This is referred to as the 12.0% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as requested in the future, credits or deficiencies in the funding of this Trust will be received from or distributed to AEP customers. Excluding securities lending cash collateral, as of December 31, 2007, the Trust had accumulated approximately $91,400. Based on the most recent annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $37,400 at December 31, 2006. As noted above, no financial assurance calculation was required at December 31, 2007.

Both Decommissioning Trusts also have separate calendar-year financial statements. These separately audited financial statements can be obtained by contacting the Controller at CPS Energy by email at SRAlbert@CPSEnergy.com.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

STP Pension Plan and Other Postretirement Benefits – STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions in the amount of $9,900 were made by STP in the 2006 calendar year, of which $7,900 were for the 2005 plan year. Pension contributions in the amount of $27,700 were made by STP in the 2007 calendar year, all of which were for the 2006 plan year. No additional funding is required in the 2008 calendar year for the 2007 plan year.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106 and 132(R).* FASB Statement No. 158 required STP, as the sponsor of a plan, to (a) recognize on its balance sheets as an asset the plan's overfunded status or as a liability the plan's underfunded status, (b) measure the plan's assets and obligations as of the end of the calendar year, and (c) recognize changes in the funded status of the plans in the year in which changes occur. Additional minimum liabilities are also derecognized upon adoption of the new standard. FASB Statement No. 158 required STP to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect of the implementation of FASB Statement No. 158 to CPS Energy of $21,174 is reflected as a reduction in Changes in Net Assets on the Statement of Activities.

Employees whose pension benefits exceed $225 for the 2007 Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

STP also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STP has a trust to partially meet the obligations of the plan.

The owners of STP, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

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Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

STP Pension Plan
Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2007

	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	$ 178,200	$ 53,186
Service Cost	7,596	4,202
Interest Cost	10,175	2,987
Actuarial Loss	10,901	2,078
Benefits Paid	(2,222)	(1,953)
Benefit Obligation - Ending	204,650	60,500
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	117,686	10,426
Actual Return on Plan Assets	15,042	1,030
Employer Contributions	27,768	1,757
Benefits Paid	(2,222)	(1,953)
Fair Value of Plan Assets - Ending	158,274	11,260
Funded Status - Ending	(46,376)	(49,240)
Unrecognized Net Actuarial Loss	38,049	23,879
Unrecognized Prior Service Cost	9,386	(15,231)
Unrecognized Transition Obligation		376
Net Amount Recognized	1,059	(40,216)
Accrued Benefit Cost	$ 1,059	$ (40,216)
Weighted-average Assumptions:		
Discount Rate	6.3%	6.3%
Expected Return on Plan Assets	8.5%	8.5%
Rate of Compensation Increase	4.0%	3.0%

Note 11 Commitments and Contingencies

Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2008. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2008 were $25,955.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2009. The estimated cost of these improvements is $772,504, of which $255,548 is related to the Airport System. These projects are scheduled to be funded with a combination of grants, contributions from others, bonds and other designated City resources.

Litigation

The City is a party to various lawsuits alleging personal and property damages, wrongful death, breach of contract, property tax assessment disputes, environmental matters, class actions, employment claims and cases. The estimated liability, including an actuarially determined amount of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount of $19,435. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Insurance Reserve Fund are adequate to cover losses for which the City may be liable. Whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements cannot be determined.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case involves allegations that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than $23,000 against the City, the trial court immediately reduced the judgment by $6,000. On appeal, the Fourth Court of Appeals sided with the City and reduced the judgment further by eliminating $10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006. The Court has not made a decision.

Brooks Hardee, et. al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; John M. Schaefer, et. al. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et. al.; Lakeside Joint Venture, et. al. v. City of San Antonio These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately six related cases still pending. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

Samantha Rivera v. et. al. v. City of San Antonio and SAPD Officers Reynaldo Montes and Rachel Barnes This is a case involving use of deadly force. Plaintiff claims that Defendant officers entered her home forcibly and with deadly force, killed Plaintiff's decedent husband in violation of his civil rights. Plaintiff alleges federal constitutional violations as well as battery under state law. Plaintiff seeks $25,000 against the City. Summary Judgment was granted in favor of the City; however, claims remain against the officers. The case was taken off of the docket for February 17, 2009 and has not been reset pending mediation. Mediation is set for March 31, 2009.

Shaw v. City of San Antonio et. al. Plaintiffs contend they were subjected to excessive force and physical beatings by police officers. The police officers were called to Plaintiffs' home on a domestic violence call on Mother's Day in 2006. Plaintiff's claim the fight had stopped but the police officers beat them. Plaintiffs' claim Fourth, Fifth, Sixth, Eighth, and Fourteenth Amendment violations under 42 U.S.C. 1983. Plaintiffs have pled for damages of $7,500. Shaw has not obtained counsel and the Court has given her until the end of April 2009 to find a new lawyer and has entered a new scheduling order with a trial to begin on November 30, 2009.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Argonaut Southwest Insurance Company v. City of San Antonio The Plaintiff's insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. Plaintiff claims damages in excess of $500. This case was settled in February 2009 for $200.

John Foddrill v. City of San Antonio Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April, 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds which were unfounded. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of $500. On February 11, 2009, a jury found in favor of the City and judgment will be entered accordingly. The plaintiff still has the ability to appeal this verdict; the City believes that its exposure in this case has significantly decreased due to the jury's verdict and lack of any significant error likely to result in reversal on appeal.

Erin McCutcheon v. Sheryl Sculley, et. al. Plaintiff was arrested by an SAPD officer for a public disturbance at a night club. Plaintiff, a minor, was intoxicated, and exhibited violent behavior. After being placed in the police cruiser, and in route to the detention facility, Plaintiff kicked out one of the windows in the car. The officer pulled over the car and another officer arrived on the scene to assist. Plaintiff tried to exit the vehicle and the officers attempted to restrain her in the car. The Plaintiff continued to act violently, kicking the officers, and they eventually used force to place her back in the vehicle. Plaintiff has filed suit against the officers, the City and the night club, alleging use of excessive force by the officers. The City has been dismissed from the suit. Damages could exceed $250. The City estimates the costs of representing the officers to be approximately $40 to $50. This case is set for trial on August 17, 2009.

Mark DeLeon v. City of San Antonio, et. al. Plaintiff alleges that while standing in the street outside a friend's house, and unmarked vehicle pulled up and two people identifying themselves as police got out of the vehicle with weapons drawn. Plaintiff alleges that he initially place his hands on a truck as instructed, but then decided to make a run for the house. When he ran, one of the officers discharged his weapon, hitting Plaintiff in the arm. Plaintiff filed suit against the City and the police officers. Damages could be in excess of $250.

Kopplow Development, Inc. v. City of San Antonio Plaintiff contends that certain public work drainage and detention improvements resulted in an easement across its property and effectively constituted a taking of property. This matter was tried in July 2008 and a verdict of $1,500 was entered against the City. This case was tried on March 16, 2009. The jury rendered a verdict in the amount of $690.

Vanessa Samudio v. City of San Antonio Plaintiff was involved in a head-on motor vehicle accident with a San Antonio Police Officer. Plaintiff alleges that the officer was driving at an excessive speed. Plaintiff has incurred in excess of $100 in medical expenses alone. Damages in this case could be at the statutory cap of $250. This case is set for trial June 15, 2009.

Natalia Vargas, et. al. v. City of San Antonio, et. al. Minor plaintiff was apprehended by police officer who allegedly used his vehicle to pin minor plaintiff against a wall, injuring minor plaintiff's leg resulting in amputation. Plaintiffs allege that City and officers violated minor plaintiff's civil rights by use of excessive force. This case is recently filed and discovery is ongoing. Damages could exceed $250.

Shawn Rosenbaum, et. al. v. City of San Antonio, et. al. Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area. Ms. Rosenbaum drove in front of a City brush truck. The driver of the truck did not see Ms. Rosenbaum and struck her, causing the wheelchair to become stuck under the truck and Ms. Rosenbaum to be drug across the parking area. Ms. Rosenbaum later died, allegedly as a result of this incident. This case is recently filed and discover is ongoing. Damages could exceed $250.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Suleman Sayani v. City of San Antonio and City South Management Authority In 2005, City of San Antonio enacted a limited purpose annexation for property located in south Bexar County. Plaintiff entered into an option contract to purchase property located in the limited purpose annexation area if the property was ever rezoned for residential development. In 2008, City Council rezoned the property at issue, the Plaintiff purchased the property. Approximately one month later, the limited purpose annexation expired and zoning authority for the area passed to City South Management Authority (CSMA). In March 2008, CSMA rezoned the property back to re-enact an industrial buffer zone. Plaintiff has filed suit alleging a taking of his property due to the zoning. This case was filed in November 2008. Discover is currently on-going. Damages in this case could exceed $250.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured. Arbitrage rebates of $501, $7, and $1 were accrued for the governmental activities and business-type activities for the Airport System, and Environmental Services, respectively at September 30, 2008.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for the fiscal year-ended September 30, 2008 was $30,046. As of September 30, 2008, the leases provide for the following future minimum rentals:

Leases Revenues				
	Governmental Activities	Airport System	Parking System	Total
Fiscal year ending September 30:				
2009	$ 2,826	$ 30,241	$ 143	$ 33,210
2010	1,898	14,815	177	16,890
2011	1,604	14,131	155	15,890
2012	1,386	13,351	155	14,892
2013	993	4,236	121	5,350
2014-2018	4,361	14,444	500	19,305
2019-2023	3,025	4,447	500	7,972
2024-2028	2,154	2,273	300	4,727
2029-2033	1,459	446		1,905
2034-2038	513			513
2039-2043	470			470
2044	23			23
Future Minimum Lease Rentals	$ 20,712	$ 98,384	$ 2,051	$ 121,147

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year-ended September 30, 2008 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,036. This represents an increase of $561 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services, as well a re-estimation of ground water monitoring costs resulting from the cancellation of a third party contract that occurred in the second quarter of fiscal year 2008.

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission, related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance and assumes all liabilities for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base - Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

In the fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at the location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. Obligations for fiscal year 2008 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022 BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested $5,000 and BDA has reduced its obligation, net of annual interest, by $2,000.

CPS Energy

Litigation

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

Leases

Capital Leases - CPS Energy has capital lease arrangements for the use of computer equipment and for the use of one truck. The value of the assets acquired through capital leases at January 31, 2008, was as follows:

	January 31, 2008
Equipment	$ 2,749
Accumulated Depreciation	(666)
Net book value	$ 2,083

The future minimum lease payments and the net present value of these lease payments as of January 31, 2008, were as follows:

Year Ended January 31,	Capital Lease Payments
2009	$ 717
2010	717
Total future minimum lease payments	1,434
Amount representing interest	(22)
Present value of minimum lease payments	$ 1,412

Operating Leases - CPS Energy has entered into operating lease agreements to secure the usage of natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains a lease payment escalation clause whereby the minimum monthly lease payments will increase by $3 per month beginning in December 2011. Additionally, the lease contains an option to purchase the facility before the end of the third year of the lease.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

As of January 31, 2008, the future minimum lease payments for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Payments
2009	$ 6,027
2010	5,693
2011	4,791
2012	2,222
2013	485
Later years	405
Total future minimum lease payments	19,623

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $5,500 in fiscal year 2008. There were no contingent lease or sublease payments in fiscal year 2008.

CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication towers. Additionally, CPS Energy has two operating leases for the use of land that CPS Energy owns. The majority of the operating leases pertaining to the use of CPS Energy's communication towers contain a provision for contingent lease receipts that will equal the lesser of a 15.0% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period. Furthermore, the two land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

As of January 31, 2008, the future minimum lease receipts for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Receipts
2009	$ 2,176
2010	2,176
2011	2,176
2012	2,176
2013	2,176
Later years	3,615
Total future minimum lease payments	14,495

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,000 in fiscal year 2008. Contingent lease receipts amounted to $246 for fiscal year 2008. There were no sublease receipts in fiscal year 2008.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

Lease/Leaseback - In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 coal-fired electric generating unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

CPS Energy retains fee simple title to and operating control of, the facility and retains all revenues generated from sales of electricity produced from the facility. CPS Energy received the appraised fair value of the unit, $725,000, which is being amortized over 381 months. The transaction expenses and leaseback costs of $628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months.

CPS Energy has the option to cancel the leaseback after it expires by making a payment to Exelon's affiliate. CPS Energy entered into a collateralization payment-undertaking agreement that will generate amounts sufficient to fund the cancellation option.

CPS Energy's net benefits associated with the transaction were approximately $88,000. The City was paid $12,300 in accordance with the provisions of the New Series Bond Ordinance that permit 14.0% of this net benefit to be distributed. The distribution was recorded as a prepayment in 2001 and is being amortized over 381 months, or approximately 32 years. As a result, net proceeds from the transaction of approximately $75,700 are being reported over the 32-year leaseback term. In fiscal year 2008, the net amount recorded as income by CPS Energy was $2,800.

On January 12, 2009, the board of trustees authorized management to explore the feasibility of early termination of this agreement. Preliminary discussions with Exelon are currently in progress.

Lignite Mining Lease and Assignment Agreement - CPS Energy entered into a lignite mining lease with Aluminum Company of America (Alcoa) effective December 28, 1998, covering all of CPS Energy's lignite reserves in Bastrop and Lee Counties of Texas. Alcoa began making advance royalty payments to CPS Energy under the lease in January 1999, which converted to a production royalty when mining began in July 2005. All advance royalties previously received by CPS Energy were deducted from production royalties at the same rate at which they were paid. The CPS Energy royalty fell within industry standard terms and was based on production volumes subject to certain minimum annual amounts.

On August 24, 2007, CPS Energy completed a Purchase and Sale Contract with a third party for the sale of the lignite properties, including the right to all coal and lignite interests.

Other

Purchase and construction commitments amounted to approximately $3,000,000 at January 31, 2008. This amount includes provisions for natural gas purchases expected through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $1,700,000. This amount includes provisions for wind power through December 2027, landfill power through December 2020, capacity and other power purchases through December 2009, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation (PFC), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned $3,000,000 purchase and construction commitments amount.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. Obligations for fiscal year 2008 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested $4,700 and BDA has reduced its obligation, net of annual interest, by $2,000.

In December 2007, CPS Energy and Exelon signed an agreement granting CPS Energy an option to participate in a possible joint investment in a nuclear-powered electric generation facility in Southeast Texas (the Exelon Project). Preliminary plans indicate that the Exelon Project would be located in Victoria County, Texas, and would involve the development of two Economic Simplified Boiling Water Reactors, nominally rated at 1,550 megawatts each. Under this agreement, CPS Energy has the option to acquire between 25.0% and a 40.0% ownership in the Exelon Project. Exelon is continuing its due diligence and development of a construction and operating license application for the Exelon Project and is expected to make its decision on whether to build some time in late 2009.

In October 2008, CPS Energy agreed to a force majeure settlement with Calaveras Power Partners, L.P. under which CPS Energy will make an initial payment of $30,000 and an additional payment of $10,000 based on project milestones over the remaining term of the Spruce 2 construction contract. Furthermore, in the event the construction project is completed by the planned commercial operation date of June 2010, an additional $10,000 will be paid to Calaveras Power Partners, L.P.

San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and potential litigation, which arise in the ordinary course of its operations. Management, in consultation with legal counsel, makes an estimate of potential costs that are expected to be paid in the future as a result of known claims and potential litigation and records this estimate as a contingent liability. The amount of such contingent liability totaled $3,000 at December 31, 2007. While the exact amount of any potential liability that may arise from these claims and potential litigation is indeterminable, management believes that the amounts recorded are a reasonable estimate.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

In March 2007, SAWS was orally notified by Region 6 of the Environmental Protection Agency (the "EPA") of alleged failures to comply with the Clean Water Act (33 U.S.C. 1251, et seq.) due to the occurrence of sanitary sewer overflows. SAWS and EPA engaged in settlement negotiations to resolve these claims. The EPA subsequently referred the matter to the United States Department of Justice (the "DOJ") for an enforcement action. SAWS continued settlement negotiations with the EPA and the DOJ to resolve the allegations. These negotiations are ongoing. SAWS continued settlement negotiations with the EPA and the DOJ to resolve the allegations. These negotiations are ongoing. SAWS expects that any settlement or enforcement action will result in required capital improvements and increased annual maintenance and operating expenses to the System that are phased in over the term of the settlement agreement. SAWS currently expects to finalize negotiations with the EPA and DOJ some time during the calendar year 2009.

Other

As of December 31, 2007, SAWS has various commitments relating to the production of future water supplies. A summary of these commitments for the next 30 years is provided below. As with any estimates, the actual amounts paid could differ materially.

	2008	2009	2010	2011	2012	Thereafter
Firm purchased water obligations	$ 5,024	$ 5,143	$ 5,268	$ 4,372	$ 4,480	$ 156,432
Firm purchased water obligations (acre feet)	8	8	8	6	6	108
Variable purchased water obligations	$ 6,152	$ 6,301	$ 6,458	$ 6,624	$ 6,798	$ 66,018
Variable purchased water obligations (acre feet)	7	7	7	7	7	54
Leased water rights	$ 2,583	$ 2,220	$ 2,032	$ 3,083	$ 2,192	$ 66,655

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with Guadalupe Blanco River Authority (GBRA) and two wholesale agreements for the supply of raw water from the Trinity Aquifer. All water provided under these contracts is subject to availability. Under the contract with GBRA, SAWS will receive between 4,000 and 10,750 acre feet of water annually during the years 2008-2037 at prices ranging from $916 to approximately $2,411 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms (figures in this paragraph are not in thousands).

In 2002, SAWS entered into a wholesale contract with the Massah Development Corporation to deliver raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County. SAWS determined the sustainable yield of the project to be 4,685 acre feet. Under this contract, SAWS is required to take or pay for 50.0% of the determined sustainable yield of the project, or 2,343 acre feet annually from 2008-2010 at prices ranging from $391 - $425 per acre foot (figures in this paragraph are not in thousands).

In 2006, SAWS renegotiated the terms of a contract with Sneckner Partners, Ltd. to supply raw water from the Trinity Aquifer. Under this contract, SAWS is required to take or pay for 1,500 acre feet annually at a minimum annual cost of $225 per acre foot through 2020 (these figures not in thousands). SAWS has an option to extend the contract through 2026, if it desires. As part of this contract, SAWS agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than $5,000.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

SAWS has entered into water leases to obtain rights to pump water out of both the Edwards and Carrizo aquifers. The term of these agreements vary, with some expiring as early as 2008 and others continuing until cancelled by SAWS. In 2008, the annual cost per acre foot for water leases from the Edwards Aquifer ranges from $77 - $127 annually. In 2008, SAWS will pay a series of reservation fees, which begin at $15 per surface acre leased, for its Carrizo Aquifer leases. Once the project commences production, the annual cost per acre foot for water leases will begin at $62.50. All Carrizo Aquifer leases and certain Edwards Aquifer leases contain future price escalators (figures in this paragraph are not in thousands).

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $243,400 as of December 31, 2007. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2008, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides general liability, law enforcement legal liability, public official's liability, employee benefits liability, and workers' compensation excess liability coverage. Great American Insurance Company provides coverage for the City's real property and contents. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past three (3) years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee health benefits program including coverage for medical, dental, and life insurance, vision, dependent care reimbursement accounts, and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Retiree Health Benefits

The City provides medical coverage for its retirees and their dependents (retirees). The City's self-insured medical programs are provided to retirees who meet the eligibility for the TMRS Pension Plan. Obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrues OPEB liabilities based on an actuarial assessment of historical claim data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Workers' Compensation

As of September 30, 2008, the City maintains excess workers' compensation insurance coverage through Star Insurance Company. The policy provides coverage for claims by or on behalf of injured workers where the total liability exceeds the City's self-insured retention of $500. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past three (3) years.

Unemployment Compensation Program

The Unemployment Compensation Program Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Employee Wellness Program Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program Fund was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment.

Claims Liability

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability (Continued)

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year-ended September 30, 2008:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2007	$ 19,213	$ 70	$ 6,712	$ (6,712)	$ 19,283
Fiscal Year 2008	19,283	152	4,719	(4,719)	19,435
Employee Health Benefits: [1]					
Fiscal Year 2007	$ 10,586	$ 1,382	$ 78,072	$ (78,072)	$ 11,968
Fiscal Year 2008	10,376	(2,164)	61,646	(61,646)	8,212
Retiree Health Benefits: [1]					
Fiscal Year 2008	$ 1,592	$ (193)	$ 9,873	$ (9,873)	$ 1,399
Workers' Compensation: [2]					
Fiscal Year 2007	$ 24,004	$ 19	$ 8,290	$ (8,290)	$ 24,023
Fiscal Year 2008	24,023	524	9,256	(9,256)	24,547

[1] The Retiree portion of incured but not reported claims in the amount of $1,592 was recorded in the Employee Health Benefit Fund. Due to implementation of GASB Statement No. 45, this balance was moved to the Retiree Health Benefits Fund.

[2] The Workers' Compensation Liability Balance of $24,547 is comprised of $22,221 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 is recorded in proprietary funds.

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $5,000,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 per occurrence with a secondary deductible of $1,000 for non-power plant and non-substation property locations. CPS Energy did not have any claims settlements that have exceeded coverage for the last three fiscal years. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $2,000;
- $25,000 of fiduciary liability coverage;
- $20,000 of employment practice liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel, event insurance.

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35,000 of excess workers' compensation coverage over a retention amount of $2,000 is maintained.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was performed in fiscal year 2008.

Amounts are expressed in thousands

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

The remaining balance under the property reserves column at January 31, 2008, relates to estimated obligations for the clean up, closure, and postclosure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites -- four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws, or regulations.

Beginning in fiscal year 2007, CPS Energy's reserve program was modified to record all claims against the reserve, whereas in prior years only significant claims were recorded against the reserve.

CPS Energy
Schedule of Changes in Claims Liability

Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Insurance:				
Fiscal Year 2007	$ 3,637	$ 101	$ -	$ 3,738
Fiscal Year 2008	3,738	(55)	(12)	3,671
Employee and Public Liability Claims:				
Fiscal Year 2007	$ 9,143	$ 2,118	$ (2,590)	$ 8,671
Fiscal Year 2008	8,671	3,677	(4,103)	8,245

Hedging - The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy.

On December 17, 2007, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

The hedge instruments are reported at cost on the balance sheet. Gains and losses related to the hedge instrument transactions are netted to fuel expense in the period realized. For fiscal year 2008, the commodity options and/or hedge instruments offset one another to achieve unrealized gains of approximately $1,100. Through the nine months ended October 31, 2008, these options and/or instruments have achieved unrealized losses of $18,700.

CPS Energy follows GASB Technical Bulletin No 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. Accordingly, the following information is provided regarding CPS Energy's outstanding financial hedge instruments as of January 31, 2008:

Fuel Derivative Transactions as of January 31, 2008

Type of Transaction	Duration	Volumes in MMBTU
Long Call	Mar 2008 - Nov 2008	7,460,000
Short Call	Mar 2008 - Oct 2008	710,000
Long Put	Mar 2008 - Nov 2008	5,610,000
Short Put	Mar 2008 - Nov 2008	6,080,000
Long NG Futures	Mar 2008 - Dec 2009	5,840,000
Short NG Futures	Apr 2008 - Dec 2008	1,140,000
Long Basis Swap	Feb 2008 - Dec 2008	920,000

Amounts are expressed in thousands

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions. As of January 31, 2008, the total cost of the outstanding hedge instruments was $2,300, with a fair value of $3,400. For the nine months ended October 31, 2008, the total cost of outstanding hedge instruments was $2,800, with a fair value of $(15,900).

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. An exchange for physical assets may take place only if expressly requested in advance.

The hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by NYMEX, of which these brokerage firms are members. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

Securities Lending - CPS Energy and the Decommissioning Trusts began engaging in securities lending transactions in fiscal year 2007 under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. The entities are authorized to loan up to 100.0% of their investments in securities lending transactions.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested in AAA-rated money market mutual funds. The maturities of these investments do not necessarily match the term of the loans, rather the investments are managed to maintain an average maturity of 30 days.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Decommissioning Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At January 31, 2008, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and/or the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses in fiscal year 2008.

Direct Investments - At January 31, 2008, there was a total of $833,500 in securities, or 59.1% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $400,300 in cash collateral and $447,500 in securities collateral, or 101.7% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $1,300 in fiscal year 2008, of which 30.0% was paid as fees to the lending agent totaling $383.

Decommissioning Trusts - For the 28.0% Decommissioning Trust at December 31, 2007, there was a total of $54,400 in securities, or 19.7% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $55,000 in cash collateral and $1,400 in securities collateral, or a total of 103.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $153 in calendar year 2007, of which 30.0% was paid as fees to the lending agent totaling $46.

For the 12.0% Decommissioning Trust at December 31, 2007, there was a total of $22,000 in securities, or 24.1% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $21,700 in cash collateral and $1,000 in securities collateral, or a total of 103.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $64 in calendar year 2007, of which 30.0% was paid as fees to the lending agent totaling $19.

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Note 12 Risk Financing (Continued)

CPS Energy (Continued)

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $500 of each workers' compensation, general liability, automobile liability and public official's liability claim and for the first $250 for each pollution legal liability claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2007, there were no reductions in insurance coverage from the previous year and there was one claim incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year. SAWS has recorded accrued claims liability in the amount of $2,312 as of December 31, 2007, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last three fiscal years were as follows:

San Antonio Water System
Schedule of Changes in Claims Liability

Year Ended	Balance at Beginning of Fiscal Year	Claims and Adjustments	Claims Payments	Balance at End of Fiscal Year	Estimated Due Within One Year
Dec. 31, 2007	$ 2,803	$ 2,550	$ (3,041)	$ 2,312	$ 2,312
Dec. 31, 2006	$ 2,552	$ 2,003	$ (1,752)	$ 2,803	$ 2,803
Dec. 31, 2005	$ 2,477	$ 1,542	$ (1,467)	$ 2,552	$ 2,552

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Amounts are expressed in thousands

Note 13 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2008:

Summary Table of Interfund Transfers
Year-Ended September 30, 2008

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System	$ 69	$ -
Categorical Grant-In Aid		6,315
Internal Service Funds	1,880	4,269
Nonmajor Governmental Funds	16,470	77,740
Nonmajor Enterprise Fund	301	5,406
Total General Fund	18,720	93,730
Debt Service Funds:		
Nonmajor Enterprise Funds		1,626
Nonmajor Governmental Funds	25,066	
Total Debt Service Funds	25,066	1,626
Categorical Grant-In Aid:		
General Fund	6,315	
Nonmajor Governmental Funds	4,082	214
Nonmajor Enterprise Funds		156
Total Categorical Grant-In Aid	10,397	370
Airport System Fund:		
General Fund		69
Internal Service Funds		165
Nonmajor Governmental Funds	300	5
Total Airport System Fund	300	239
Internal Service Funds:		
General Fund	4,269	1,880
Airport System	165	
Internal Service Funds	5,178	5,178
Nonmajor Governmental Funds	377	1,576
Nonmajor Enterprise Funds	374	
Total Internal Service Funds	10,363	8,634
Nonmajor Governmental Funds:		
General Fund	77,740	16,470
Debt Service		25,066
Categorical Grant-In Aid	214	4,082
Airport System	5	300
Internal Service Funds	1,576	377
Nonmajor Governmental Funds	206,119	206,119
Nonmajor Enterprise Funds	1,390	
Total Nonmajor Governmental Funds	287,044	252,414
Nonmajor Enterprise Funds:		
General Fund	5,406	301
Debt Service Fund	1,626	
Categorical Grant-In Aid	156	
Internal Service Funds		374
Nonmajor Governmental Funds		1,390
Total Nonmajor Enterprise Funds	7,188	2,065
Total	$ 359,078	$ 359,078

Amounts are expressed in thousands

Note 13 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Note 14 Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds Balance Sheet includes reconciliation between total fund balances - total governmental funds and total net assets governmental activities as reported in the government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds." The detail of the $3,647 is as follows:

Revenues previously reported as unearned in the fund financial statements	$ 12,620
Unearned revenues previously reported as income in the fund financial statements	(8,973)
Revenues collected after year end, but not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the governmental funds	$ 3,647

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

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net change in fund balances - total governmental funds and change in net assets of governmental activities as reported in the government-wide Statement of Activities.

Another element of this reconciliation states, "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." The details of the $49,374 are as follows:

Compensated Absences	$ (46,266)
Interest Expense	(4,863)
Arbitrage Expense	327
Principal Reduction on Long-term Payables	17,599
Net OPEB Obligation	(16,171)
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	$ (49,374)

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Amounts are expressed in thousands

Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

During the course of the fiscal years 2006 and 2007, the Financial Department conducted a comprehensive review and validation effort in coordination with City Departments of all current and past grants in order to reconcile departmental grant records to the accounting records. This effort resulted in a $10,504 deficit fund balance in the Categorical Grant-in-Aid Fund and $979 in the Community Development Program Fund. Due to further research as well as funding provided by the City's annual budget process, this deficit has been reduced to $7,873 and $0 deficit fund balance amounts in the Categorical Grant-in-Aid Fund and the Community Development Program Fund, respectively. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts have been incorporated into the City's annual budget process and are scheduled to be funded over the next four years.

The Golf Course Fund had a deficit fund balance of $1,851 as of September 30, 2008. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor, fuel, and equipment maintenance costs have contributed to the deficit. The City and MGA-SA entered into an agreement for MGA-SA to begin managing City-owned golf courses starting October 2007 with a complete transition by March 2009. The agreement included that the City shall be paid 50.0% excess revenue from the courses' operations to reduce the City deficit. In addition MGA-SA would also reimburse the City for personnel and equipment costs paid by the City for MGA-SA operations.

Development and Planning Services Fund had a deficit fund balance of $950 as of September 30, 2008. The deficit is attributable to a significant decrease in new residential building permits. In addition to the negative general economic forces that have emerged as a result of the slump in the construction and real estate markets. The City imposed expenditure cuts across the department to assist in reducing further deficiencies including, but not limited to, the elimination of positions in the department until such time as business returns, which the City estimates to be 2011.

Capital Projects Funds

As of September 30, 2008, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, 2008 Certificates of Obligation Bond Fund, and the Improvement Projects Fund in the amounts of $11,281, $4,554, $468, and $6,775 respectively. These deficit balances were identified during a capital project review and clean up which began in fiscal year 2007 and will extend through fiscal year 2009. These deficits will be addressed by identifying the appropriate bond authorization and transferring funds, or other funds, as necessary.

Note 16 Other Disclosures

Donor Restricted Endowment

The City has four Permanent Funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Fund generated $73 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

Note 16 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The Carver Cultural Center Endowment Fund generated $13 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $488 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, administered, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $11 in interest. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

Note 17 Prior Period Restatement

Primary Government (City)

City South Management Authority

City South Management Authority, a discretely presented component unit, is handled by City staff with financial activity included in the City's general ledger system in the General Fund. After further analysis of component units this fiscal year it was determined that City South Management Authority is a discretely presented component unit. As a result an ending net asset/fund balance of $(607) was removed from the City's beginning balance and included in the discretely presented component unit's financials for the fiscal year-ended September 30, 2008.

San Antonio Public Library Foundation

San Antonio Public Library Foundation (SAPLF), a blended component unit, in previous years was not reported on the City's CAFR. After further analysis of component units this fiscal year it was determined that the San Antonio Public Library Foundation is a blended component unit of the City. Since financial activity was not reported in prior years, the beginning net asset and fund balances in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances has been adjusted by $3,199 and $2,661, respectively.

San Antonio Local Development Company

San Antonio Local Development Company (SALDC) recorded a prior year adjustment of $77 to the beginning net assets of Microloan Revolving Fund at September 30, 2008. In 2007, SALDC implemented the use of an allowance for doubtful accounts based on previous years' experience of bad debts. The allowance was recorded with expense to the income of 2007 in its respective loan funds. However, the Microloan Revolving Loan Fund is different from the loan funds because the Small Business Administration (SBA) requests that actual cash be set aside in this fund before any loan is approved or disbursed. Due to that fact, SALDC considered that the reserve for the Microloan Revolving Fund did not have to be charged to only one year's income, 2007, but to adjust the beginning net assets, to recognize that this reserve had already been created several years before, at each time SALDC received an SBA loan for the revolving loan program. This program started more than ten years ago at SALDC.

Note 17 Prior Period Restatement (Continued)

San Antonio Development Agency

In February 2009, San Antonio Development Agency completed an internal analysis and corrective reconciliation of certain errors that had occurred in the prior year resulting in the misstatement of land and building inventories, accounts receivable, notes receivable, accounts payable, notes payable and net assets for that year. An adjustment for $385 has been made to increase unrestricted net assets to $636; and an adjustment for $385 to increase fund balance as of September 30, 2007 to $636.

CPS Energy

Prior to fiscal year 2008, the Employee Benefit Plans were reported as component units of CPS Energy, and their financial results were blended with those of CPS Energy. In order to properly implement GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008.

Note 18 Subsequent Events

Primary Government (City)

Real Estate Exchange

On November 25, 2008, the City engaged in a real estate exchange transaction with Hixon Properties, Inc. The City sold the River Bend Parking Garage property valued at $22,400 for other downtown property valued at $15,500 and cash proceeds of $6,900, less related closing fees. This new property will be used to construct a new Public Safety Headquarters, which will serve as a downtown headquarters for both the Fire and Police Departments.

Debt Transactions

On November 13, 2008, the City issued $10,120 in Taxable General Improvement Refunding Bonds, Series 2008. The Bonds were issued to refund the City's outstanding Parking System Revenue Bond indebtedness which was used to finance certain parking facilities owned and operated by the City. Refunding these obligations will eliminate certain operating and revenue covenants and certain restrictions imposed by federal income tax laws relating to use of facilities financed with the tax-exempt obligations. The Bonds have maturities ranging from 2017 to 2024, with interest rates ranging from 5.8% to 6.6%.

On December 17, 2008, the City issued $75,060 General Improvement Bonds, Series 2008. The Bonds were issued to finance the construction of general improvements of the City and to pay the costs of issuance of the 2008 Bonds. Concurrently, the City issued $85,005 Combination Tax and Revenue Certificates of Obligation, Series 2008, whose proceeds will be used for making permanent public improvements and for other public purposes. The Bonds and Certificates have maturities ranging from 2009 to 2028, with interest rates ranging from 3.5% to 5.5%.

Additionally, on December 17, 2008, the City issued $15,320 in Tax Notes, Series 2008. The proceeds of the Notes will be utilized to fund computer and information technology system improvements and payments of administrative costs relating to the Note sale. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes will have maturities ranging from 2009 to 2013, with interest rates ranging from 3.5% to 5.0%.

Note 18 Subsequent Events (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2008 completed and issued in January 2009. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $182,995 as of October 1, 2007 to $254,060 and an increase in the years to amortize the UAAL from 8.7 years to 12.03 years as a level percent of payroll.

As is the case with most public pension plans, the Pension Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Fund's investment losses as of September 30, 2008 have been smoothed which results in the deferral of $221,013 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 8.0%. Additionally, as of February 25, 2009, the Fund has incurred additional investment losses of approximately $377,000.

Contribution rates for the members of the Pension Plan and the City are established under Texas state statutes and do not change with the results of the annual actuarial valuations. Staff of the Pension Fund and the City will continue to monitor the situation closely. Please see Note 8, Pension and Retirement Plans for more information on the Fire and Police Pension Plan.

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund had an available draft of its actuarial study as of October 1, 2008, with a projected completion date of late March 2009. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $325,337 as of October 1, 2007 to $352,650. In order to maintain an amortization of the UAAL over a period of 30 years, contribution and benefit rates would have to increase beyond those currently included in the Fund's governing statute. However, these contribution and benefit rates would only be required to be implemented if the amortization period of the UAAL exceeds 30 years with the actuarial valuation to be conducted in 2017.

As is the case with most pension and postemployment plans, the Retiree Health Care Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Retiree Health Care Fund's investment losses as of September 30, 2008 have been smoothed which results in the deferral of $22,760 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 8.0%. Additionally, as of December 31, 2008, the Fund has incurred additional investment losses of approximately $20,206.

Staff of the Retiree Health Care Fund and the City will continue to monitor the situation closely. Please see Note 9, Postemployment Retirement Benefits for more information on the Retiree Health Care Fund.

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Note 18 Subsequent Events (Continued)

CPS Energy

On December 23, 2008, CPS Energy issued $158,000 of tax-exempt New Series 2008A Revenue Refunding Bonds. On February 1, 2009, the bond proceeds will be used to refund $165,300 par value of the tax-exempt New Series 1998A Bonds. This refunding transaction will result in a net present value debt service savings of $6,200, or 3.8% of the par amount of the bonds refunded.

On June 25, 2008, CPS Energy issued $287,900 of tax-exempt New Series 2008 Revenue Bonds. Total bond proceeds, including net original issue premium, will be used to fund generation, as well as electric and gas distribution construction projects.

On February 19, 2009, the City Council authorized the issuance of "Revenue Refunding Bonds, New Series 2009A", in an amount not to exceed $450,000. These proceeds will be utilized to refund existing tax-exempt Commercial Paper. The City Council also authorized on February 19, 2009, that CPS Energy may enter into a $100,000 revolving Line of Credit and issue Notes as needed. CPS Energy will have the Line of Credit available as back-up liquidity that could allow for postponement of debt issuances during unfavorable market downturns.

San Antonio Water System (SAWS)

Environmental Exposure

On March 4, 2008, SAWS received notification from the Texas Commission on Environmental Quality (TCEQ) informing SAWS that allegations of violations of permit effluent limits under a SAWS Texas Pollutant Discharge Elimination System (TPDES) permit were noted during a record review. As TCEQ has not made a determination on these allegations, no estimate of liability can be made at this time.

Debt Transactions

On December 30, 2008, SAWS issued $30,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008 through the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging form 0.1% to 4.0%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On December 30, 2008, SAWS issued $23,260 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging form 1.1% to 5.0%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund $3,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 12, 2009, SAWS issued $163,755 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009. The proceeds from the sale of the Bonds were used to (i) finance capital improvement projects, (ii) refund $143,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

Note 18 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

Hedges

As discussed in Note 6, Long-Term Debt, to hedge against changes in interest expense associated with the currently outstanding Subordinate Lien Obligations designated as the City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003A and 2003B (the Subordinate Lien Obligations), which were issued in a weekly interest reset mode, SAWS has entered into an agreement with Bear Stearns Financial Products Inc. Under the agreement, SAWS must pay any excess monthly (and the counterparty must pay any deficit monthly) of 4.2% per annum over the Municipal Swap Index published by The Securities Industry and Financial Markets Association applied to a specified notional amount that reduces annually through the date of stated termination. SAWS' obligations under the agreement (up to stated policy limits upon termination) are insured by MBIA Insurance Corporation (MBIA); the counterparty's obligations are not insured or guaranteed. SAWS and the counterparty may each terminate the agreement if the other party (or in some cases, its insurer) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or may not legally perform its obligations under the agreement, or merges or otherwise combines with or transfers substantially all of its assets to a materially less creditworthy entity. In that case, neither party may terminate the agreement without the consent of MBIA. The counterparty may also terminate the agreement if (a) MBIA defaults on the hedge insurance policy, (b) MBIA fails to maintain an A3 rating from Moody's and an A- rating from S&P (the counterparty's ability to exercise the right to terminate upon the occurrence of either of (a) or (b) requires also that an event of default occurs and is continuing with respect to SAWS or a termination event occurs and is continuing with respect to SAWS, or (c) the ratings assigned to the Subordinate Lien Obligations are reduced below A2 by Moody's or A by S&P and the claims paying ability of MBIA are reduced below A2 by Moody's or below A by S&P. Under certain circumstances, MBIA may exercise the parties' termination rights. If either party terminates the agreement, SAWS must pay to the counterparty (or the counterparty must pay to SAWS) the mean or median average of amounts quoted by leading dealers to be paid to or by the counterparty to enter into an economically equivalent agreement with the counterparty, regardless of whether SAWS or the counterparty was the defaulting party.

In March 2008, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies Inc., the parent of Bear Stearns Financial Products Inc. The transaction closed on May 30, 2008. JPMorgan Chase has guaranteed the trading obligations of Bear Stearns and its subsidiaries. SAWS' obligations under the agreement will be secured by a lien on the Net Revenues of the System on a parity with the lien securing the Subordinate Lien Obligations and other Additional Subordinate Lien Obligations, except that the lien securing any uninsured portion of SAWS termination obligations is subordinate to that lien. Any amounts received by SAWS under that agreement will be revenues of the System. They will not be available to pay the Subordinate Lien Obligations and the Junior Lien Obligations. The counterparty's indexed obligations on the Subordinate Lien Obligations and Commercial Paper Notes so long as the credit of the credit enhancer and liquidity bank and the tax-exempt status on the Subordinate Lien Obligations and Commercial Paper Notes are maintained. If the counterparty's obligations do not correlate closely, or if the counterparty defaults in payment under the agreement, SAWS would be exposed to possible increases in the rate of interest on the Subordinate Lien Obligations and Commercial Paper Notes.

On August 7, 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the Subordinate Lien Obligations due to the continued unfavorable market conditions relating to variable rate demand obligations insured by MBIA, resulting in the related interest rate hedge agreement not providing an effective hedge against short term interest rate movements applicable to the related obligations. The Subordinate Lien Obligations were redeemed with Commercial Paper Notes. With the partial redemption which was completed on August 27, 2008, $1,000 of the Subordinate Lien Obligations remain outstanding. SAWS is evaluating different approaches to further mitigate the risk associated with the remaining outstanding Subordinate Lien Obligations and the associated interest rate hedge agreement. SAWS management does not expect the recent transactions to redeem the Subordinate Lien Obligations and any subsequent transactions regarding the remaining Subordinate Lien Obligations and associated interest rate hedge agreement to have a materially adverse impact on SAWS financial position or results of operations.

Note 18 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

Hedges (Continued)

If the interest rate hedge agreement is terminated, SAWS could be obligated to make a substantial payment to the counterparty, depending on market conditions. SAWS may also enter into other interest rate hedging transactions payable from operating revenues in the future, with comparable risks

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Required Supplementary Information Other Than MD&A (Unaudited)

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (Inflows):				
Taxes	$ 459,403	$ 459,402	$ 468,495	$ 9,093
Licenses and Permits	5,778	7,201	7,756	555
Intergovernmental	6,063	6,259	6,468	209
Revenues from Utilities	263,388	263,388	304,158	40,770
Charges for Services	43,493	42,157	43,010	853
Fines and Forfeits	10,957	10,900	12,249	1,349
Investment Earnings	6,890	6,171	4,940	(1,231)
Miscellaneous	5,179	5,748	10,982	5,234
Transfers from Other Funds	25,735	18,581	18,720	139
Amounts Available for Appropriation	826,886	819,807	876,778	56,971
Charges to Appropriations (Outflows):				
General Government	95,325	113,531	84,270	29,261
Public Safety	463,611	467,555	456,687	10,868
Public Works	11,290	11,301	11,477	(176)
Health Services	63,178	63,908	65,892	(1,984)
Sanitation	3,113	3,465	3,446	19
Welfare	44,136	47,962	46,712	1,250
Culture and Recreation	76,202	77,095	74,574	2,521
Economic Development and Opportunity	3,561	3,707	3,143	564
Transfers to Other Funds	92,143	95,290	95,755	(465)
Total Charges to Appropriations	852,559	883,814	841,956	41,858
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(25,673)	(64,007)	34,822	98,829
Fund Balance Allocation	25,673	64,007	(34,822)	(98,829)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ -	$ -	$ -	$ -

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 876,778
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(18,720)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 858,058
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 841,956
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(8,404)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(95,755)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 737,797

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

The City noted budget violations within the Public Works, Health Services and Transfers to Other Funds functions. However, as sufficient actual revenues or fund balance covered individual functional excesses they were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on
State Grants "Single Audit Report"
Year-Ended September 30, 2008

City of San Antonio, Texas

Pension and Postemployment Schedules

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-07	$ 2,017,856	$ 2,200,851	$ 182,995	91.7%	$ 229,547	79.7%
10-01-06	1,824,386	2,028,761	204,375	89.9%	221,539	92.3%
10-01-05	1,676,075	1,910,789	234,714	87.7%	207,145	113.3%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-07	$ 479,005	$ 796,725	$ 317,720	60.1%	$ 244,530	129.9%
12-31-06	464,287	642,808	178,521	72.2%	231,262	77.2%
12-31-05	475,325	642,202	166,877	74.0%	209,176	79.8%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) *	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	$ 1,012,067	$ 1,041,471	$ 29,404	97.2%	$ 209,070	14.1%
01-01-06	955,300	906,400	(48,900)	105.4%	210,074	(23.3)%
01-01-05	902,100	837,600	(64,500)	107.7%	198,441	(32.5)%

* Actuarial assumptions were changed for the January 1, 2007, valuation as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data.

[1] In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-07	$ 62,023	$ 90,776	$ 28,753	68.3%	$ 68,412	42.0%
12-31-06	59,801	75,652	15,851	79.0%	65,078	24.4%
12-31-05	55,902	70,703	14,801	79.1%	62,619	23.6%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	$ 66,129	$ 81,587	$ 15,458	81.1%	$ 63,462	24.4%
01-01-06	57,847	75,097	17,250	77.0%	60,836	28.4%
01-01-05	52,412	63,064	10,652	83.1%	59,476	17.9%

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)
Postemployment Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [2]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	$ 150,818	$ 220,691	$ 69,873	68.3%	$ 209,070	33.4%
01-01-06	133,851	228,446	94,595	58.6%	202,072	46.7%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [3]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [5]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	$ 3,925	$ 5,211	$ 1,286	75.3%	$ 177,558	0.7%
01-01-06	4,109	6,013	1,904	68.3%	175,102	1.1%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [4]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [5]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	$ 47,809	$ 31,219	$ (16,590)	153.1%	$ 177,558	(9.3)%
01-01-06	46,662	40,009	(6,653)	116.6%	175,102	(3.8)%

[1] Per GASB Statement No. 43, the AAL is not being reported for the actuarial valuation date of January 1, 2005, since it was not calculated in accordance with this Statement.

[2] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $97,900 for January 1, 2007; $101,600 for January 1, 2006, and $104,500 for January 1, 2005.

[3] The AAL for the January 1, 2006, valuation date disclosed in the fiscal year 2007 Notes to the Basic Financial Statements of $6,000 was an estimate based on information available at the time.

[4] The AAL for the January 1, 2006, valuation date that was previously reported as $60,903 was not prepared in accordance with GASB Statement No. 43. The $40,009 shown above was calculated in accordance with GASB Statement No. 43.

[5] CPS Energy has selected the aggregate cost method for determining Life Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the Plan.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)
Postemployment Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-06	$ -	$ 258,428	$ 258,428	0.0%	$ 229,547	112.6%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [3]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-07	$ 188,147	$ 513,484	$ 325,337	36.6%	$ 213,446	1.5%
10-01-06	162,777	497,382	334,605	32.7%	197,000	2.7%

SAN ANTONIO WATER SYSTEM - OPEB PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-08	$ 73,777	$ 89,098	$ 15,321	82.8%	$ 66,996	22.9%
01-01-07		200,083	200,083	0.0%	69,288	288.8%

[1] City will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability for the Retiree Health Benefits Fund.

[2] The Health Care Fund's only contributing employer, the City of San Antonio, Texas, implemented GASB 43 in fiscal year 2007 resulting in only two years of ARC and AAL data for the fiscal year-ended September 30, 2008. Subsequent year's actuarial valuations will be presented in this schedule resulting in the presentation of multiple periods - ultimately for the three most recent valuations.

[3] The 10/01/06 Actuarial Valuation report did not include State mandated plan changes that were effective as of 10/01/07, and the 10/01/06 report showed an AAL of $702,909. The 10/01/07 Actuarial Valuation report, however, reflects a 10/01/06 AAL of $497,382 based upon the effects of the 10/01/07 mandated changes. Mandated changes call for increased plan contributions and decreased plan benefits as a means with which to reduce funding deficits.

City of San Antonio, Texas

Supplemental Information

City of San Antonio, Texas

Schedule of Expenditures of State Awards
(by Grantor, State Program and Grant Number)

Schedule of Expenditures of State Awards
Year-Ended September 30, 2008

STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM	GRANT NUMBER	CITY NUMBER	STATE EXPENDITURES
Texas Commission on Environmental Quality:			
Pass Through - Alamo Area Council of Governments:			
Automated Garbage and Recycle Education 2006-2007	07-18-G04	26-008049	$ 25,109
Educational Outreach Recycling 2006-2007	07-18-G03	26-008047	81,330
Household Hazardous Waste Drop-Off Site FY 2006	06-18-G09	26-008043	14,517
Mulch Deliver 2008	08-18-G08	26-008053	44,571
Southside Drop-Off Enhancement 2006-2007	07-18-G05	26-008046	32,516
Used Tire Recycling 2006-2007	07-18-G07	26-008048	40,645
Total Pass Through - Alamo Area Council of Governments			$ 238,688
Direct Programs:			
Air Monitors:			
Air Monitoring 2006-2008	582-7-72672	26-008045	$ 234,150
Air Monitoring 2008-2009	582-7-72672	26-008057	10,596
Air Monitors Lake Calaveras 2005-2006	582-6-72649	26-008040	24,825
Air Monitors Lake Calaveras 2008-2009	582-6-72649	26-008058	1,571
Air Monitoring in SA TCEQ PM 2.5 2007-2008	582-8-72698	26-008052	72,721
Air Monitoring in SA TCEQ PM 2.5 2008-2009	582-8-72698	26-008056	4,152
Total Air Monitors			$ 348,015
Recycling and Green Waste Education Program:			
Recycling and Green Waste Education Program FY 2006	06-18-G08	26-008044	$ 20,045
Recycling and Green Waste Education Program FY 2008	08-18-G09	26-008054	192,982
Total Recycling and Green Waste Education Program			$ 213,027
Texas Emission Reduction Plan:			
Texas Emission Reduction Plan 2007	582-7-708100333	26-008055	$ 155,744
Total Texas Commission on Environmental Quality			$ 955,474
Texas State Library and Archives Commission:			
Direct Program:			
Lone Star Libraries Grant 2008	442-08439	26-04005	$ 185,933
Total State Library and Archives Commission			$ 185,933
Texas Commission on the Arts:			
Direct Program:			
TCA Subgranting Grant 2007-2008	08-29057	26-005139	$ 37,015
Total Texas Commission on the Arts			$ 37,015
Texas Department of State Health Services:			
Direct Programs:			
Health Services/Education Program:			
Health Services/Education Program 2006-2007	7460020708A 2007	26-016109	$ 25,184
Health Services/Education Program 2007-2008	2008-024472-001	26-016116	237,613
Total Health Services/Education Program			$ 262,797
Inner-City School Immunization:			
Inner-City School Immunization 2006-2007	7460020708A 07	26-016109	$ (245)
Milk Sample Lab Tests:			
Milk Sample Lab Tests 2006-2007	7460020708B 2007	26-016109	$ 40,043
STRAC Grant Project:			
STRAC Grant Project FY 2006	NONE	26-016112	$ 439
STRAC Grant Project FY 2007	NONE	26-016114	1,745
STRAC Grant Project FY 2008	NONE	26-016119	1,709
Total STRAC Grant Project			$ 3,893
Subtotal Texas Department of State Health Services			$ 306,488

* Major Program

See accompanying Notes to the Schedule of Expenditures of State Awards

Schedule of Expenditures of State Awards
Year-Ended September 30, 2008

STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM		GRANT NUMBER	CITY NUMBER	STATE EXPENDITURES
Texas Department of State Health Services (Continued):				
Direct Programs (Continued):				
TB Prevention and Control:				
TB Prevention and Control 2008-2009		2009-028363-001	26-016120	$ 9,811
Title V Family Planning:				
Title V FFS-Family Planning 2007-08		2008-023755-001	26-016116	$ 70,900
Tobacco Prevention and Control Grant:				
Tobacco Prevention and Control		2008-025614-001	26-016360	$ 106,586
Tobacco Community Coalition		2009-029454-001	26-016120	6,753
Total Tobacco Prevention and Control Grant				$ 113,339
Total Texas Department of State Health Services				$ 500,538
Texas Department of Transportation:				
Direct Programs:				
Intelligent Transportation System Grant:				
Intelligent Transportation System		NONE	26-059214	$ 80,756
Regional Auto Crimes Team:	*			
Regional Auto Crimes Team 2006-2007		SAT041006307	26-031016	$ 30,420
Regional Auto Crimes Team 2007-2008		SAT041006308	26-031017	927,004
Regional Auto Crimes Team 2008-2009		SAT041006309	26-031018	85,789
Total Regional Auto Crimes Team				$ 1,043,213
Total Texas Department of Transportation				$ 1,123,969
Office of the Governor:				
Direct Programs:				
421 State Planning Funds:				
Operation Fast Track		1891701	26-055339	$ 25,718
Emergency Management Events from the Division of Emergency Management:	*			
Hurricane Dean		PDM02002	26-056068	$ 575,700
Hurricane Dolly		N/A	26-056069	110,598
Tropical Storm Edouard		N/A	26-056070	79,307
Hurricane Gustav		N/A	26-056071	607,731
Hurricane Ike		N/A	26-056072	1,482,612
Total Emergency Management Events from the Division of Emergency Management				$ 2,855,948
Pass Through the City of Houston:				
Emergency Management Events from the Division of Emergency Management:	*			
Hurricane Ike - Houston Deployment		N/A	26-056072	$ 122,060
Total Office of the Governor				$ 3,003,726
Texas Attorney General's Office:				
Direct Programs:				
State Confiscated Property:	*			
New State Account		N/A	29-038000	$ 364,449
Vice Seizures		N/A	29-040000	206,405
Salvage Reduction/Program Seizures		N/A	29-042000	1,355
HIDTA-Task Force Seizures		N/A	29-043000	94
HIDTA-DPS Seizures		N/A	29-044000	3,658
Total Texas Attorney General's Office				$ 575,961
TOTAL EXPENDITURES OF STATE AWARDS				$ 6,382,616

* Major Program

See accompanying Notes to the Schedule of Expenditures of State Awards

Notes to the Schedule of Expenditures of State Awards

Year-Ended September 30, 2008

1. The accompanying schedule of expenditures of state awards includes the state grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular* ("Audit Circular"). The Audit Circular was issued under the authority of the Texas Government Code, Chapter 783, entitled Uniform Grant and Contract Management. This circular sets standards for obtaining consistency and uniformity among state agencies for the coordinated audit of local governments expending any state awards.

2. In fiscal year 2008, there were no state awards provided to subrecipients.

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on State Grants "Single Audit Report"

Year-Ended September 30, 2008

City of San Antonio, Texas

Other Reports

City of San Antonio, Texas

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the State of Texas Single Audit Circular

Grant Thornton

Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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Honorable Mayor and Members of the City Council
City of San Antonio, Texas:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2009. Our report was modified to include a reference to other auditors. Our report was also modified to include an explanatory paragraph related to the restatement of net assets as of September 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, and San Antonio Public Library Foundation, blended component units, which represent 68%, 73% and 44%, respectively, of the assets, net assets and revenues /additions, of the aggregate remaining fund information. Other auditors also audited the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units, as described in our report on the City's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Main Plaza Conservancy, Municipal Golf Association – San Antonio, SA Energy Acquisition Public Facilities Corporation, San Antonio Educational Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, San Antonio Public Library Foundation, and City Public Service of San Antonio audited by other auditors that were not performed in accordance with *Government Auditing Standards* were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies 2008-01 through 2008-03 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider item 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City in a separate letter dated March 30, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, members of the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
March 30, 2009

City of San Antonio, Texas

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the State of Texas Single Audit Circular

Grant Thornton

Report of Independent Certified Public Accountants on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the *State of Texas Single Audit Circular*

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Honorable Mayor and Members of the City Council
City of San Antonio, Texas:

Compliance

We have audited the compliance of the City of San Antonio, Texas (the City) with the types of compliance requirements described in the *State of Texas Single Audit Circular* that are applicable to each of its major state programs for the year ended September 30, 2008. The City's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Texas Single Audit Circular*. Those standards and the *State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 2008-05 and 2008-06 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding equipment and real property management that is applicable to its State Confiscated Property program and its Regional Auto Crimes Team program. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of

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expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-04 through 2008-06 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-05 and 2008-06 to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, members of the City Council, management of the City, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
March 30, 2009

City of San Antonio, Texas

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs
State Grants
Year-Ended September 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiencies identified that are not considered to be material weaknesses?	X Yes ___ None reported
Noncompliance material to financial statements noted?	___ Yes X No

State Awards

Internal control over major programs:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiencies identified that are not considered to be material weaknesses?	X Yes ___ None reported
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except for State Confiscated Property and Regional Auto Crimes Team, which was qualified
Any audit findings disclosed that are required to be reported in Accordance with the *State of Texas Single Audit Circular?*	X Yes ___ No

Identification of major programs:

Grant Numbers:	Name of State Program or Cluster:
SAT041006307, SAT041006308, and SAT041006309	Regional Auto Crimes Team
PDM02002, Not Applicable	Emergency Management Events
Not Applicable	State Confiscated Property

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	___ Yes X No

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding: 2008-01
Airport Operations
Type of Finding - Material Weakness

Condition and Context:

There is a lack of coordination and communication between the areas within the department that collectively handle airport revenue coupled with a lack of comprehensive policies and procedures and an outdated airport management system (Data Point). We noted the following internal control deficiencies that aggregated to the material weakness:

- Airport Revenue - Revenue is earned in several ways ranging from airline landing fees, joint-use fees, concessions, parking, building rentals, etc. The majority of the airport's revenue is generated from lease agreements. Based on our understanding of the existing processes in place, the contract coordinators are responsible for maintaining a set of lease agreements, including providing the updated lease information to the billing area which is responsible for billing. Any issues that arise from the billing based on the leases are communicated by the lessee directly to the contract coordinator. From review of supporting documents, we noted that incorrect billing on contracts went on for several months before they were corrected through the use of manual credit memos.

- Information Technology System (Data Point) – From discussion with client personnel at the airport, the Data Point system has been in use since the early 1980's. It is a MS DOS based system that has limited reporting and tracking abilities contributing to the issues encountered in accounting for airport revenues and related receivables. It is noted that the Airport is moving towards implementing SAP which is expected to remediate most of the issues identified at the Airport. This implementation however, is not projected to be completed until the following fiscal year due to the required configuration of the SAP modules responsible for lease contracts and revenue.

- Accounts receivable and related allowance – Per review of the allowance related to the receivable, we noted that there was no written policy for collecting the outstanding receivable balance or calculating the allowance. Based on evaluation, it was determined that an increase in the allowance was appropriate based on the aging of the receivables.

- Revenue accruals – There is not an effective method for calculating revenue accruals at fiscal year-end. The Airport calculated the accrual based on an analysis of the last three months with additional adjustments based on judgment after the calculation has been performed. There is no look-back performed after year-end to determine the reasonableness of the estimate.

Cause:

The division of responsibilities of the Aviation Department surrounding the handling of revenue and accounts receivable is between the fiscal planning area, revenue and billing area, and contract/program management area.

Effect:

This lack of coordination and comprehension resulted in the increase usage of manual credit memos and inadequate allowance and year-end accrual estimates.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Recommendations:

We recommend that airport management, in conjunction with the Finance Department, review the existing policies and procedures relative to the financial operations and reporting of the Airport and update them accordingly in order to establish the necessary controls to ensure adequate communication between all areas within airport operations who have responsibilities related to revenue management.

Additionally, it is critical that all users are appropriately trained when migrating to SAP to minimize any issues related to contract management, billing and collecting. In the interim, a meeting should be held with fiscal planning, revenue and billing, and contract management to communicate the responsibilities of each area and the integration that is necessary between the areas to adequately manage airport revenue.

Views of responsible officials and planned corrective actions:

The City agrees that the Data Point system has limited reporting and tracking abilities which contributes to the issues encountered in accounting for airport revenues and related receivables. The City began the process of converting the Airport's Lease Management System from Data Point into SAP during the current fiscal year. It is anticipated that the conversion will be completed by June 30, 2009.

As part of the conversion of Airport Lease Management from Data Point to SAP, the Aviation Department will review, revise or create new policies and procedures as needed to better ensure that airport billings are properly managed in accordance with lease agreements currently in place to include new and/or additional training for all applicable users as identified through the conversion process. Aviation will additionally communicate to all applicable users' policies and procedures required to be followed to ensure those individuals are knowledgeable of said policies and procedures. These aforementioned actions will enhance communication and coordination among the various areas within the Aviation Department, and better clarify area responsibilities.

Aviation will also ensure that allowance estimates are enhanced to take into consideration both historical collections of aging receivables as well as the solvency status of lessees; and fiscal year-end accrual estimates take into consideration historical revenues earned during the month of September, while also comparing those estimates against actual collections in a look-back analysis performed within two months of fiscal-year end.

Additionally, the Finance Department is in the process of finalizing Administrative Directive 8.4 entitled Accounts Receivable, for the purpose of establishing enterprise standards for all City Departments to follow. This Administrative Directive when issued will define the minimum departmental responsibilities with respect to the review and collection process, calculation of an allowance for doubtful accounts, and other related areas. The Finance Department will communicate and perform training related to this Administrative Directive prior to its final release and effective date of May 31, 2009.

Implementation Date

June 30, 2009

May 31, 2009

Responsible Person

Michael Sawaya, Interim Director
Aviation Department

Ben Gorzell Jr., CPA, Director
Finance Department

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

<u>Finding: 2008-02</u>
Administration and Management of User Access
Type of Finding - Significant Deficiency

Condition and Context:

During our review of access to critical systems or applications, we noted the following:

- *New user Access:* A number of new user access requests lacked proper documentation supporting management's approval of requested access.
- *Removal of Access:* Numerous terminated employees had access to critical systems or their access was not removed in a timely manner after the notification of their termination.
- *Review of Access:* Access reviews are not being performed for the financially critical systems (Network, UNIX, SAP, and MARR).

Cause:

"Identity Access Management" (IAM) is a multi-year/phased project which was sharing limited resources with other Information Technology Systems Department (ITSD) projects that were currently underway.

Effect:

The necessary documentation of processes and identification of the gaps has not yet occurred.

Recommendations:

We recommend that access requests for new hires be approved by appropriate management, and for terminated employees that their access be disabled or removed from all critical systems in a timely manner. In either case, documentation should be maintained evidencing the request for granting access and removal of access. In addition, we recommend that the City implement a formal and periodic access review process which would serve as a detective control for monitoring potential segregation of duties issues and inappropriate access.

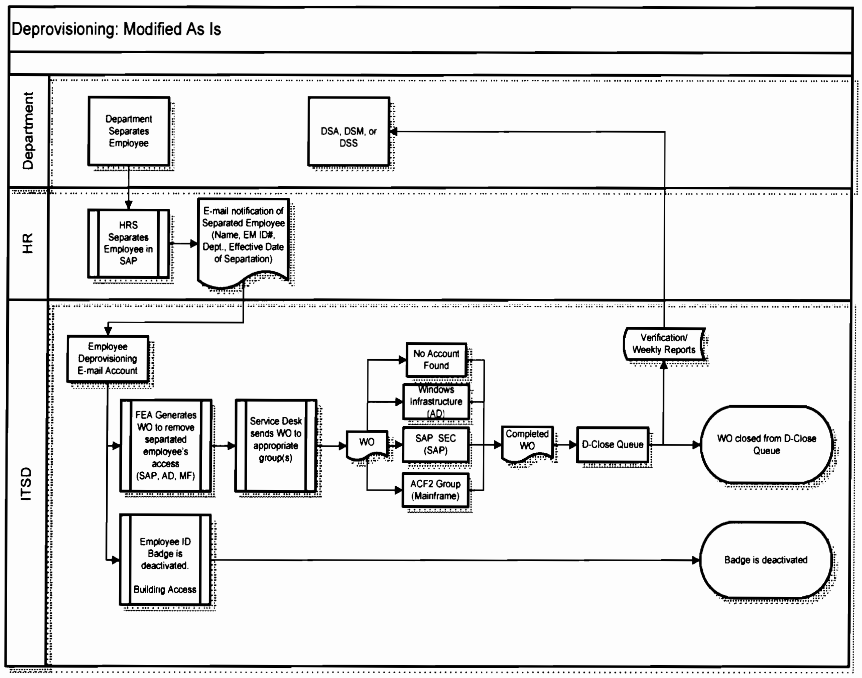
Views of responsible officials and planned corrective actions:

Steps are being taken by the City's ITSD to tighten the control process around the creation of new users. This process is part of an overall IAM process that will define and document the City's overall procedures and process for new user access. The request for access is to follow a natural "Chain-of-Command" for the user. The user's supervisor should be either the "requesting or approving" authority, depending upon the "sensitive" nature of access requested. In order to establish this process throughout the City and to standardize the process and procedures, a "Role-Based" access system must be fully implemented. Elements of the process are currently in place; however the necessary documentation of processes and identification of the gaps has yet not occurred. AS IAM is a multi-year/phased project which will result in significant changes to the City's IT access roles and procedures, the City will continue to evaluate and work towards the transition to a "Role-Based" access system.

ITSD initiated a "mini-project" to refine the de-provision process. This process is one part of an overall IAM strategy that incorporates the entire "Provisioning" process, containing: (1) Provisioning (Creation), (2) Modification, and (3) De-Provisioning (Removal of Access). This process would apply to both standard users and remote access users. Efforts were made in November to focus solely on the issue of ensuring that separated employees' user access to City systems and identification badges were de-provisioned. A process map illustrating the current steps used to accomplish this task is provided below. This change strengthened the controls with respect to the employee separation process. Additional work is necessary in order to fully

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

address current employees with work status changes (promotion resulting in a department change or role changes within the organization, etc.).



The granting (provisioning) and termination of access (de-provisioning) is currently a manual process that has not been fully defined. To correct this deficiency will require a project designed around IAM. The initial phase of developing the manual processes used to provision/de-provision a user of the system and identify the gaps associated with City's current processes has been incorporated as a phase within the implementation of the Approva tool.

The City purchased the Approva tool during fiscal year 2008 and held workshops for each SAP module to identify roles and role violations. As of September 30, 2008, the City was wrapping up this first phase and beginning to plan the second, the implementation of the changes recommended to roles identified in the first phase. The City expects to have all remaining phases of the implementation completed by September 30, 2010. While Approva will not provide a complete solution to the issues surrounding user access; it will be an integral part of the overall solution. Approva will ultimately be incorporated into the final IAM solution.

Implementation Date

September 30, 2010

Responsible Person

Richard Varn, Chief Information Officer
City Manager's Office

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Finding: 2008-03
Review and Oversight
Type of Finding - Significant Deficiency

Condition and Context:

We noted that there was a certain lack of sufficient review of accounting transactions, reconciliations and year-end account analyses in many areas of the accounting function. Accounting tasks such as reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data. Specific matters noted through the course of our audit include the following:

1. Capital Assets: During our testing of CIP projects we noted several projects that were completed and had not been accounted for as having been placed into service. Additionally, we identified projects that were included in CIP but should have been expensed as the items would not be deemed City assets. Further, when performing a reasonableness test on depreciation expense, we noted that different in-service dates were used in the computation from those reported by the respective departments, resulting in differences.
2. Accounts Payable: We noted several exceptions in which invoices relating to goods received or services performed prior to year-end were not recorded as payables in the proper period. As a result, a more comprehensive review was performed by finance personnel resulting in approximately a $9.0 million adjustment to increase payables as of year-end.
3. Debt Advance Refunding: Although the City complied with GASB No. 23: "*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*", we noted that the deferred charge on refunding calculation was not computed correctly.
4. Accrued Leave Calculation: Negative balances were discovered during the review of the paid leave accrual as a result of the SAP system conversion.

Cause:

We feel that some of the contributing factors to the deficiencies mentioned include the need for well-defined accounting policies and procedures and need for on-going training in the accounting division within the Finance Department.

Effect:

The City had to adjust balances for Construction in Progress, assets in service, and expenses associated with capital assets; record liabilities and associated expenses or increases in Construction in Progress related to year-end cutoff reviews; alter its calculation of deferred revenue refunding and associated amortization; and modify its accrued leave liability and associated expenses based on errors in the City's initial calculations.

Recommendations:

We recognize as it relates to capital assets and accounts payable the City instituted certain corrective actions to address previously identified issues. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the establishment of written account analyses/process policies and procedures at all levels. Furthermore, we recommend that the City establish ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Views of responsible officials and planned corrective actions:

The City is in the process of assessing training and strengthening processes and reviews within the accounting division of the Finance Department and supporting City Departments in order to adequately address these issues. A separate response for each of the areas identified is presented below in more detail.

1. *Capital Assets: Over the course of the last several fiscal years the accounting and recording of capital assets has significantly improved and was previously reported as a material weakness. In order to address this issue a comprehensive validation and reconciliation of all Capital Projects was performed and the Finance Department created Administrative Directive 8.9 Financial Management for Capital Projects and held training with applicable departments in February 2008. As part of A.D. 8.9, departments are required to provide to the Finance Department on a monthly basis those projects that have been completed, the resulting asset type, useful life and completion date in order to properly close-out CIP projects and transfer the resulting asset into service. Finance will review and revise the A.D. as needed based on feedback from the departments, hold additional trainings, and provide continuous oversight to reinforce the departmental duties required by the Administrative Directive. The Finance Department is currently in the process of documenting and implementing a more stringent review process to improve the quality of the accounting data and mitigate the potential for future errors. The improved review processes will be in place for the April 2009 month-end close of the financial records.*
2. *Accounts Payable: For the current fiscal year the Finance Department also strengthened existing procedures for ensuring invoices relating to goods received or services performed prior to year-end were recorded as payables in the proper period. However, as a result of miscommunication and a lack of reviews, controls were not completely implemented as planned. Additional training and reviews will be established for the future in order to ensure controls are operating as designed. A brief overview of the controls in place is as follows. The Finance Department holds an annual year-end closing workshop to provide guidance and training to departmental fiscal staff on cut off procedures related to recording accounts payable in the correct accounting period. Included in the year-end closing discussion for fiscal year 2008 was a discussion on the process and requirements for ensuring that purchase requisitions were completed prior to September 30, 2008, goods receipts for items received prior to October 1 were posted in fiscal year 2008's business and any invoices received after October 1, 2008 in excess of $25,000 related to goods/services received during fiscal year 2008 should be identified and accrued. Additional reviews occur in the Finance Department to identify payables subject to accrual and should be in place through publication of the Comprehensive Annual Financial Report. However, due to a lack in the necessary guidance and training this process ceased prematurely in mid December, which could have resulted in the possibility that payables associated with the correct fiscal year may have been understated. Once this weakness was detected the Finance Department corrected the issue by performing a comprehensive review of all disbursements paid in excess of $25,000 and as a result accrued all previously unidentified payables due from a lapse in the established controls. Finance will provide the necessary training and formalize policies and procedures in a formal General Accounting Administrative Directive by September 30, 2009 in order to clearly define duties and responsibilities for the review and accrual of expenditures at fiscal year-end.*
3. *Debt Advance Refunding: Since the system conversion to SAP and the reorganization of the Finance Department, the Finance Department has continued to make significant improvements in the areas of accounting and reporting. The Finance Department will continue to improve and refine it business processes with respect to training and establishing the necessary reviews to ensure the quality of calculations and accuracy. As a result of this oversight, the Finance Department will evaluate the implementation documentation and procedures surrounding the calculation and recording of amortization costs in accordance with GASB No. 23 and make the necessary improvements. The necessary reviews and training with respect to each underlying calculation and schedule will be established to ensure all supporting data utilized to determine annual amortized costs are complete and accurate. This is schedule to be completed by May 31, 2009.*

Schedule of Findings and Questioned Costs
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Year-Ended September 30, 2008

4. *Accrued Leave Calculation: Certain leave data was not converted correctly during the implementation to the SAP financial system. Following the go-live of SAP a stabilization period occurred in which all leave balances were validated and corrections were made to the balances if necessary to ensure earned leave was reported correctly to employees. The Finance Department was aware of the negative balances but inadvertently included them in the accrued leave calculation. Finance has continued to research the issues surrounding the negative hours due from system conversion and anticipates having those cleared and resolved by April 30, 2009.*

Implementation Date

September 30, 2009

Responsible Person

Ben Gorzell Jr., CPA, Director
Finance Department

SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS

Finding: 2008-04
Allowable Costs

State Confiscated Property
Award year - 2008
Award number - N/A
Pass-through Entity - N/A
Type of finding - Significant Deficiency

Questioned Costs:	N/A
Texas Attorney General's Office	

Criteria or Specific Requirement:

Chapter 59 of the Criminal Code requires all expenditures from the Asset Seizure Fund be approved by the Fiscal Manager. The Uniform Grant Management Standards Subpart C (b) (3) requires "The financial management systems of other grantees and sub-grantees must meet the following requirements: Internal Control. Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

Condition:

It was noted that the City did not obtain approval to expend funds from the Asset Seizure Fund for one transaction.

Context:

It was noted that one out of 25 items selected judgmentally for testing did not have the appropriate approval. It was noted that an annual contract had been approved to purchase light bars from this vendor through the General Fund; however, the procurement did not have the required authorization to use the Asset Seizure Fund.

Cause:

Failure of staff to follow all requirements for the purchase order process.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Effect:

The City's lack of authorization to use the Asset Seizure Funds may cause the City to be in noncompliance of specific grant conditions required by the state agency.

Recommendations:

We recommend that the City reevaluate their procurement procedure to ensure that the process includes authorization on all purchase orders regardless of contract approval.

Views of responsible officials and planned corrective actions:

The use of Asset Seizure Funds is approved by the Chief of Police or the Assistant Chief of Police, Operations Support Bureau, with recommendation from the Fiscal Planning Manager. Approval from the Fiscal Planning Manager is accepted as approval from the Chief of Police or the Assistant Chief of Police. The approval of the Fiscal Planning Manager is noted by his signature on the "hard copy" of the purchase request.
The procedure for review and approval is that all purchase requests go through this chain of command. However, in this one circumstance, the light bars were approved by the Office of the Chief and did not go through the normal chain of command. This approval was not documented by the Fiscal Planning Manager even though the request received his verbal approval.

Fiscal Services within the Police Department will modify its procedures to require approval in writing from the chain of command for all purchase requisitions. This procedure also requires written approval from the "approving authority" when using special funds, such as Asset Seizure.

Implementation Date

January 1, 2009

Responsible Person

William McManus, Chief of Police
Police Department

Finding: 2008-05
Equipment and Real Property Management

State Confiscated Property
Award year - 2008
Award number - N/A
Pass-through Entity - N/A
Type of finding - Material Weakness and Material Non-compliance
Criteria or Specific Requirement:

Questioned Costs:	N/A
Texas Attorney General's Office	

The State of Texas Uniform Grants Management Standards requires that a physical inventory count and property record reconciliation be conducted at least every two years.

Condition:

During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Context:

The City did not have any documentation to support that a physical inventory count and property records reconciliation was performed within the last two years.

Cause:

Failure to perform and document the physical inventory count and the property records reconciliation.

Effect:

The City's lack of a physical inventory count and property records reconciliation causes the City to be in noncompliance with specific contract conditions required by the State of Texas Uniform Grants Management Standards.

Recommendations:

We recommend that the City perform and adequately document the results of its physical inventory counts at least once every two years in accordance with the State of Texas Uniform Grants Management Standards. We also recommend that the City adequately document a property records reconciliation from Police Department records to the City's SAP system.

Views of responsible officials and planned corrective actions:

The physical inventory for the Confiscated Property vehicles and computers was performed on November 24, 2008. However, the inventory was not documented. All future inventories will be documented using an internal memorandum routed through the chain of command to the Police Department Fiscal Services Office.

Physical inventories had been accomplished outside the City's SAP system. The SAP Asset Management Module has not been updated to support the requirements imposed on grant funded assets owned by the City.

The Police Department has three databases for monitoring the accountability of assets: (1) the FASTER system to track vehicles; (2) ISDB for computers; and (3) a database that monitors furniture and is managed by the Police Department Facility Manager, Frank Garcia. The FASTER system and ISDB are managed by Fleet Operations at the Purchasing Department, and Information Technology and Services Department (ITSD), respectively.

Currently, there is not a formal mechanism for the reconciliation between SAP and systems outside of SAP that track assets for the City. The Finance Department is completing a Fixed Asset administrative directive and will hold training to support this directive by September 30, 2009. This administrative directive will direct departments what steps must be taken both in SAP and in any shadow system in terms of tracking assets, conducting property inventory, etc. Further, external departments will be directed what documentation will be necessary to provide to the Finance Department to validate that assets recorded in the off-SAP systems agree to what is recorded in SAP. The database that monitors furniture and is managed by the Police Department will be used for the maintenance of additional non-financial information needed by Police that is not attainable from SAP.

<u>Implementation Date</u>

September 30, 2009

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Responsible Persons

William McManus, Chief of Police
Police Department

Ben Gorzell Jr., CPA, Director
Finance Department

Finding: 2008-06
Equipment and Real Property Management

Regional Auto Crimes Team
Award years - 2007, 2008, and 2009
Award numbers - SAT041006307, SAT041006308, and SAT041006309
Pass-through Entity - N/A
Type of finding - Material Weakness and Material Non-compliance

Questioned Costs:	N/A
Texas Department of Transportation	

Criteria or Specific Requirement:

The State of Texas Uniform Grants Management Standards requires that a physical inventory count and property record reconciliation be conducted at least every two years.

Condition:

During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

Context:

The City did not have any documentation to support that a physical inventory count and property records reconciliation was performed within the last two years.

Cause:

Failure to perform and document the physical inventory count and the property records reconciliation.

Effect:

The City's lack of physical inventory count and property records reconciliation causes the City to be in noncompliance with specific contract conditions required by the State of Texas Uniform Grants Management Standards, which could potentially lead to loss or return of funding.

Recommendations:

We recommend that the City perform a physical inventory count and property records reconciliation at least once every two years in accordance with the State of Texas Uniform Grants Management Standards. We also recommend that the City adequately document the results of the physical inventory count and the property records reconciliation to provide evidence that the procedures were actually performed.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2008

Views of responsible officials and planned corrective actions:

The physical inventory for the ReAct vehicles and computers was performed on November 24, 2008. However, the inventory was not documented. All future inventories will be documented using an internal memorandum routed through the chain of command to the Police Department Fiscal Services Office.

Physical inventories had been accomplished outside the City's SAP system. The SAP Asset Management Module has not been updated to support the requirements imposed on grant funded assets owned by the City.

The Police Department has three databases for monitoring the accountability of assets: (1) the FASTER system to track vehicles; (2) ISDB for computers; and (3) a database that monitors furniture and is managed by the Police Department Facility Manager, Frank Garcia. The FASTER system and ISDB are managed by Fleet Operations at the Purchasing Department, and Information Technology and Services Department (ITSD), respectively.

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Implementation Date

September 30, 2009

Responsible Persons

William McManus, Chief of Police
Police Department

Ben Gorzell Jr., CPA, Director
Finance Department

CITY OF SAN ANTONIO, TEXAS