City of San Antonio, Texas

FINANCIAL & COMPLIANCE REPORTS on FEDERAL and STATE GRANTS

"SINGLE AUDIT REPORT"

Fiscal Year Ended September 30, 2009

ABOUT THE COVER: The New Brand of Our Destination

The Quatrefoil

The essence of the San Antonio brand is expressed in a new logo, based on the "quatrefoil," generally, a four-lobed geometric shape. Its origins combine world lore, legend and legacy in much the same way as San Antonio itself. Historically, structurally, symbolically, spiritually and artistically, the shape carries significance and meaning. It is most recognized as the shape of the four-leaf clover. According to legend, each leaflet of the four-leaf clover represents a specific area of good fortune for the finder: hope, faith, love and luck. By adopting the quatrefoil as the shape of the San Antonio brand, we honor the four specific pillars of the brand: People, Pride, Passion and Promise.

- The people of San Antonio embody the power and spirit of the city.
- Drawn from a deep-rooted history and fueled by the progress of tomorrow, pride prevails.
- Whether artist, server, chef, valet, restaurateur, golf pro or merchant, the people of San Antonio show passion for what they do and the roles they play in the city. What lies beyond each bend of the river?
- What lies just over the graceful arch of a bridge? What lies past a courtyard gate, through a carved Mission door? Everywhere, there is a promise of adventure, of knowledge, of welcome, of intrigue and, ultimately, great reward.

Even the color tells the San Antonio story. The primary logo color, "Corazon," represents the unbridled passion and heart that's inherent in all citizens of San Antonio. Other branding colors are reflective of the colors of the land, the architecture and of the vibrant cultures that are indigenous to San Antonio.

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Reports on Federal and State Grants "Single Audit Reports" For Fiscal Year-Ended September 30, 2009

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City of San Antonio, Texas

Introductory Section

Financial and Compliance Report on Federal and State Grants "Single Audit Report" Table of Contents

Year-Ended September 30, 2009

Financial and Compliance Report on Federal and State Grants "Single Audit Report" Table of Contents

Year-Ended September 30, 2009

City of San Antonio, Texas

Letter of Transmittal

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

March 31, 2010

To the Honorable Mayor and City Council:

The City of San Antonio's Financial and Compliance Reports on Federal and State Grants (Single Audit Report) for the fiscal year-ended September 30, 2009, has been audited by the City's Independent Auditor, Grant Thornton LLP. The Federal Single Audit Report has been prepared in accordance with OMB Circular A-133 promulgated to implement the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the AICPA Audit Guide "Government Auditing Standards and Circular A-133 Audits." The State Single Audit Report has been prepared in accordance with the *State of Texas Single Audit Circular*. The reports are comprised of the City Management's Discussion and Analysis (MD&A), Basic Financial Statements, Schedules of Expenditures of Federal and State Awards, respectively, 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*, the Report of Independent Certified Public Accountants on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, the 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* and the *State of Texas Single Audit Circular*, the 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*, the Schedule of Findings and Questioned Costs, and the Summary Status of Prior Year Findings for both the Federal and State Single Audits.

For the fiscal year ended September 30, 2009, the City was awarded $237.398 million in Federal assistance and $4.312 million in State assistance for a total of $241.710 million, compared to $170.048 million in Federal and $6.360 million in State assistance the previous fiscal year, which totaled $176.408 million. The net increase in Federal of $67.350 million and net decrease in State of $2.048 million is reported in the following categories:

Federal Categorical and Block Grants:		
Social Services	$	1,544,890
Air Transportation		5,738,979
Interlibrary Services		(61,438)
Public Health		(1,997,789)
Recreation and Arts		668,143
Criminal Justice		275,289
Economic Development		(175,692)
Urban Redevelopment and Housing		8,635,899
Environmental Quality		(252,000)
Emergency Management		(3,482,568)
American Recovery and Reinvestment Act		57,156,321
Community Development Block Grant		(445,763)
HOME Program Block Grant		(253,533)
Total Net Increase	$	67,350,738

State Categorical Grants:

Interlibrary Services	$	(2,963)
Public Health		1,132,307
Criminal Justice		56,513
Environmental Quality		(834,397)
Emergency Management		(2,400,112)
Total Net Decrease	$	(2,048,652)

A summary schedule reflecting amounts of categorical and block grants to the City in fiscal year 2009 as compared to the preceding year are presented on page xii. In addition, for your convenience, a list of acronyms identifying grantor agencies used in this report is provided on page xiii.

Information on each of the categorical and block grants is presented below as it relates to federal and state financial assistance.

FEDERAL CATEGORICAL GRANTS

Social Services - $101,672,080

In fiscal year 2009, the City was awarded Social Services grants totaling $101,672,080 compared to $100,127,190 awarded to the City in the previous year. The Department of Community Initiatives received $46,579,863 from the U.S. Department of Health and Human Services (DHHS) to operate the Head Start-Early Child Care Program. This program provides a wide range of education and social services to approximately 6,789 low-income, pre-school children and their families. These services are provided at 66 child development centers throughout San Antonio and Bexar County to children ranging from three to five years of age. DHHS awarded the City $25,000 for the Families Save 5 Individual Development Account (IDA) program. The IDA program is a matched savings program for low income working individuals and families who live in Bexar County. Participants must be at or below HHS 200% poverty guidelines.

The Texas Workforce Commission (TWC) through the Alamo Workforce Development, Inc. (AWD) awarded $44,572,274 from DHHS to operate the Child Care Delivery System (CCDS) Program. The program provides childcare services to low-income working families. The City provides overall coordination of the CCDS Program and includes client services, fiscal management, vendor management, equipment, and materials for qualified CCDS service providers. In fiscal year 2009, the program served 19,900.

The Texas Department on Aging and Disability Services (DADS) through the Alamo Area Council of Governments (AACOG) awarded $1,865,912 to the City from DHHS to operate the Metro S.A. Comprehensive Nutrition Project. This program provides nutritional and supportive services primarily to senior citizens whose incomes are below poverty level and who are undernourished or deprived. These services are provided through non-profit agencies under contract with the City for provision of senior centers, facilities, meal preparation and delivery of supportive services and homebound meals. In 2009, these grants assisted in providing approximately 932,545 meals to local senior citizens.

The U.S. Department of Housing and Urban Development (HUD) awarded the City three grants relating to social services totaling $6,349,162. HUD awarded grant in the amount of $1,025,000 for Housing Opportunities for Persons with AIDS, which provides housing support to for persons with HIV/AIDS. The Supportive Housing Program grant was awarded in the amount of $5,256,988; this grant is designed to promote the development of supportive housing and supportive services in the transition from homelessness to self-sufficiency. Additionally, a Housing Counseling Program Grant, in the amount of $67,174, was awarded and will be used to provide comprehensive housing counseling services.

FEDERAL CATEGORICAL GRANTS (Continued)

Social Services (Continued)

DHHS awarded a $275,250 grant through DADS and AACOG, to operate the Supportive Services for the Elderly Program. This program provided approximately 12,940 one-way bus trips primarily for medical appointments to elderly participants.

The Texas Department of Housing and Community Affairs (TDHCA) awarded $1,902,619 received from DHHS to operate a Community Service Block Grant for the purpose of providing emergency services for our community's most vulnerable residents. Emergency services include food, rent, utility, and prescription assistance.

The Texas Education Agency (TEA) awarded the City a $102,000 grant received from the U.S. Department of Education (ED) to operate the EL/CIVICS program, which emphasizes instruction of the rights and responsibilities of citizenship, naturalization procedures, civic participation, U.S. history and government. This grant will help students acquire the skills and knowledge to become active and informed parents, employees, and community members.

Head Start - Early Child Care Program	(DHHS)	$	46,579,863
Families Save 5	(DHHS)		25,000
Child Care Delivery System Program	(DHHS/TWC/AWD)		44,572,274
Metro S.A. Comprehensive Nutrition Project	(DHHS/DADS/AACOG)		1,865,912
Housing Opportunities for Persons with AIDS	(HUD)		1,025,000
Supportive Housing Program	(HUD)		5,256,988
Housing Counseling Program	(HUD)		67,174
Supportive Services for the Elderly	(DHHS/DADS/AACOG)		275,250
Community Service Block Grant	(DHHS/TDHCA)		1,902,619
EL/CIVICS	(ED/TEA)		102,000
Total FY 2009 Awards		$	101,672,080

Air Transportation - $16,889,528

For fiscal year 2009, the City's Aviation Department received three grants totaling $16,889,528, compared to $11,150,549 awarded to the City in the previous year. As a result of the September 11, 2001 terrorist attack, the Aviation and Transportation Security Act was established to improve airport security. The Department of Homeland Security (DHS) awarded the City two grants; one for $250,500 to fund the Airport K-9 Grant Program and the second for $386,185 to fund the Airport Checkpoint Grant Program. The Department of Transportation (DOT) awarded $16,252,843 for various airport improvements, including extensions of a runway, drainage projects, and airfield pavement repairs for the City.

Airport K-9 Grant	(DHS)	$	250,500
Airport Checkpoint Grant	(DHS)		386,185
Airport Improvement Programs	(DOT)		16,252,843
Total FY 2009 Awards		$	16,889,528

Texas State Library and Archives Commission Grant Awards - $735,369

In fiscal year 2009, the City was awarded Library Grants totaling $735,369 compared to $796,807 awarded in the previous year. San Antonio Public Library acts as the State designated major resource center and is charged with utilizing grants awarded by the Institute of Museum and Library Services (IMLS) and passed through the Texas State Library and Archives Commission System (TSLAC). These grants provide funds for the Alamo Area Library System (AALS), which oversees the Library Systems Operations Grant, the Technical Assistance Negotiated Grant, and the Interlibrary Loan Services Grant. These grants are used for the purpose of public library development within the AALS area which consists of 21 counties including Bexar.

An award of $282,427 was granted for the Interlibrary Loan Services from IMLS through the TSLAC. This program provides interlibrary loan services to multi-type libraries in a 21 county area that includes Bexar County. A Library Systems Operations award for $364,707 was accepted through TSLAC from the IMLS. These funds will be used for the purpose of public library development in the AALS which provides consulting and continuing education for library staff in 46-member public libraries that includes the San Antonio Public Library. A Technical Assistance Negotiated Grant in the amount of $88,235 was also awarded to the City from TSLAC through IMLS to provide technical assistance to support member libraries in the utilization, maintenance, and security of computer resources.

Interlibrary Loan Services - Federal Grant	(IMLS/TSLAC)	$	282,427
Library Systems Operations - Federal Grant	(IMLS/TSLAC)		364,707
Technical Assistance Negotiated Grant	(IMLS/TSLAC)		88,235
Total FY 2009 Awards		$	735,369

Public Health - $12,673,481

In fiscal year 2009, the City was awarded Public Health Grants totaling $12,673,481 compared to $14,671,270, awarded to the City in the previous year. The San Antonio Metropolitan Health District (SAMHD) received $2,126,033 in Public Health State Support Project grants from DHHS through Texas Department of State Health Services (DSHS) to supplement the delivery of comprehensive public health services to protect the health of all citizens in San Antonio and unincorporated areas of Bexar County. A $2,429,561 DHHS grant passed through DSHS was awarded to fund the Childhood Immunization Maintenance Project, which provides immunization protection against vaccine preventable diseases for children throughout the community. A $1,243,901 DHHS grant passed through DSHS was awarded to fund the Steps to a Healthier San Antonio Program, which provides intervention strategies to improve nutrition, increase physical activity, and prevent tobacco use and exposure.

The DHHS through DSHS also awarded SAMHD a grant in the amount of $750,000 to fund the Healthy Start initiative. This initiative will provide education and prevention services for women who are at risk for having low birth weight babies.

A $6,123,986 grant was awarded from the United States Department of Agriculture (USDA) through DSHS to operate the Women, Infants and Children Project. The project provides nutritious foods and nutrition education to qualified pregnant, breastfeeding or postpartum women along with infants and children less than five years. The program serves approximately 50,697 participants each month.

Public Health State Support Project	(DHHS/DSHS)	$	2,126,033
Childhood Immunization Maintenance Project	(DHHS/DSHS)		2,429,561
Steps to a Healthier San Antonio Program	(DHHS/DSHS)		1,243,901
Healthy Start Initiative	(DHHS)		750,000
Women, Infants and Children Project	(USDA/DSHS)		6,123,986
Total FY 2009 Awards		$	12,673,481

Recreation and Arts - $1,652,291

In fiscal year 2009, the City was awarded Recreation and Arts grants totaling $1,652,291 compared to $984,148 awarded to the City in the previous year. The Texas Health and Human Services Commission (DHHSC) awarded grants in the amount of $1,563,443 received from the USDA to operate the Summer Food Service Project to procure lunch and snack rations for children age eighteen and below participating in the City's Summer Youth Recreation Support Program. The program served approximately 213,568 summer snacks and 225,380 lunches in conjunction with the Parks and Recreation Department's traditional Recreation Services Program which operates at 119 sites across the City for the benefit of eligible participants ages eighteen and under. The Texas Commission on the Arts (TCA) awarded an $88,848 grant received from the National Endowments for the Arts (NEA) to the City's Office of Cultural Affairs. This grant supported the operations of five local art agencies.

Summer Food Service Project	(USDA/DHHSC)	$	1,563,443
Texas Commission for the Arts Local Arts Agencies	(NEA/TCA)		88,848
Total FY 2009 Awards		$	1,652,291

Criminal Justice - $3,695,226

In fiscal year 2009, the City was awarded Criminal Justice grants totaling $3,695,226 compared to $3,419,937 awarded to the City in the previous year.

The Office of the National Drug Control Policy (ONDCP) awarded the City High Intensity Drug Trafficking Area (HIDTA) grants. The HIDTA mission is to reduce drug trafficking in the San Antonio metropolitan area by instituting innovative narcotic enforcement investigations and the seizure of illegally obtained assets in an effort to reduce the profitability of narcotics trafficking. This strategy is designed to make the "business" of drug dealing unprofitable. Under this program, the City received a $1,992,470 grant for the Multi-Agency Drug Courier and Apprehension Task Force.

Texas Department of Transportation (TxDOT) awarded the Police Department a grant totaling $140,000 received from the Department of Transportation (DOT) for the Click It or Ticket grant. The funds are to be used to ensure compliance with seat belt and child safety seats laws. TxDOT also awarded the City a grant totaling $800,000 received from DOT for the DWI/Speed Enforcement Selective Traffic Enforcement Program. The DWI portion of the grant will augment the Police Department's efforts to combat the incidence of DWI, as well as DWI related accidents. The speed enforcement component will augment the Police Department's efforts at combating the incidence of speeding, as well as speed related accidents.

The Police Department was additionally awarded grants for administrative support. A $174,876 grant was awarded from the Department of Justice (DOJ) for the Local Law Enforcement for the purchase of ballistic vests. A $30,880 grant was awarded from the DOJ passed through the Office of the Governor - Criminal Justice Division (CJD), entitled Project EASE. Project EASE funds translation services for hearing impaired victims of crime.

The DOJ through the CJD of the Governor's Office also awarded the City a $557,000 pass through grant to specifically address gang activity in the City.

FEDERAL CATEGORICAL GRANTS (Continued)

Criminal Justice (Continued)

High Intensity Drug Trafficking Area	(ONDCP)	$	1,992,470
Click It or Ticket Program	(DOT/TxDOT)		140,000
DWI/Speed Enforcement Selective Traffic Enforcement	(DOT/TxDOT)		800,000
Bulletproof Vest Partnership Program	(DOJ)		174,876
Project EASE	(DOJ/CJD)		30,880
TRU Special Initiative	(DOJ/CJD)		557,000
Total FY 2009 Awards		$	3,695,226

Economic Development - $216,308

In fiscal year 2009, the City was awarded the Procurement and Technical Assistance Development grant from the U.S. Department of Defense's (DOD) Defense Logistics Agency totaling $216,308 compared to the previous year award of $392,000. This award has been awarded to the City for over 20 years. This grant was used in part to operate the Procurement Technical Assistance for Business Firms Program. This program provides technical procurement assistance to businesses seeking to market their products and services to federal, state, and local governments.

Urban Redevelopment and Housing - $8,635,899

Through the Housing and Economic Recovery Act, HUD awarded the City funds in the amount of $8,635,899 to establish financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties.

Emergency Management - $13,270,045

In fiscal year 2009, the City was awarded Emergency Management grants totaling $13,270,045 compared to $16,752,613 awarded to the City in the previous year. The City received five grants in the amount of $6,925,064 to combat terrorism. The first grant awarded in the amount of $321,221, from DHS through the Office of the Governor - Division of Emergency Management (GDEM), provides program funds to support designated jurisdictions to further enhance and sustain a regionally integrated, systematic mass casualty incident preparedness program that enables a response during the first crucial hours of an incident. The second grant from the DHS through GDEM, in the amount of $4,572,774, provides program funds to address the unique planning, equipment, training, and exercise needs of high-threat, high-density urban areas, and assist them in building an enhanced and sustainable capacity to prevent, protect against, respond to, and recover from acts of terrorism. The third grant from the DHS through GDEM, in the amount of $1,689,834, provides program funds to support the implementation of state homeland security strategies to address the identified planning, equipment, training, and exercise needs for acts of terrorism. The fourth grant from the DHS through GDEM, in the amount of $156,648, enhances local emergency management capabilities to identify hazards which threaten our cities and counties and improve local emergency planning. The fifth grant awarded by DHS through GDEM in the amount of $184,587, will provide funds to enhance facility security and law-enforcement response capabilities at key critical infrastructure as identified by DHS.

The DHHS through DSHS awarded the City a grant in the amount of $270,079 to assist in the City's effort towards the Cities Readiness Initiative. Another grant in the amount of $4,751,619 was received from the DHHS through DSHS for the Public Health Emergency Preparedness Program for Bioterrorism Preparedness.

Finally, a grant in the amount of $1,323,283 was awarded to the Public Center for Environmental Health from the DOD. Funding from this grant was used to conduct scientific studies to determine the health impacts from exposures to environmental contamination that may have been experienced by residents near the former Kelly Air Force Base as well as monitor the Air Force's efforts to remediate contaminates.

FEDERAL CATEGORICAL GRANTS (Continued)

Emergency Management (Continued)

Metropolitan Medical Response System 2008	(DHS/GDEM)	$	321,221
Urban Areas Security Initiative 2008	(DHS/GDEM)		4,572,774
State Homeland Security Program 2008	(DHS/GDEM)		1,689,834
Emergency Management Preparedness 2008	(DHS/GDEM)		156,648
Buffer Zone Protection Program 2008	(DHS/GDEM)		184,587
Cities Readiness Initiative Program	(DHHS/DSHS)		270,079
Public Health Emergency Preparedness Programs	(DHHS/DSHS)		4,751,619
Public Center for Environmental Health	(DOD)		1,323,283
Total FY 2009 Awards		$	13,270,045

American Recovery and Reinvestment Act - $57,156,321

President Obama signed the American Recovery and Reinvestment Act into law on February 17, 2009. The American Recovery and Reinvestment Act of 2009 provides nationwide a total of $787 billion in spending and tax cuts. The funding is temporary, intended to preserve and create jobs, and make investments in infrastructure, energy and science, unemployment assistance, and State and local stabilization.

In order to take full advantage of the funding opportunities and additional services that may be provided to the City of San Antonio as a result of the American Recovery and Reinvestment Act, City staff has worked closely with City Council to strategize and align specific City Council ranked projects to individual Federal and State agency funded programs. The strategies developed address formula and grants funding opportunities available to the City and serve as the guiding plan for submission of applications and acceptance upon award of stimulus funds by the City.

City Council adopted the *Funding Strategy for City Council Prioritized Federal Economic Stimulus Projects* on March 5, 2009 and amended on April 9, 2009 to reflect additional energy efficiency-related stimulus dollars. This Funding Strategy Plan serves as the guide in the City's submittal of "applications" and acceptance upon award of stimulus funds.

The Police Department was awarded from the DOJ Community Oriented Policing Services Hiring Recovery Program a three year grant funding totaling $10,354,400 which covers entry-level salaries and benefits for 50 new police officers. The City will provide funds over the three year period totaling $2,866,573 to cover additional required costs which the grant does not cover. The grant specifies that these 50 positions be funded out of the Police General Fund budget for a minimum of twelve (12) months after the grant funding period ends in fiscal year 2012.

The Police Department was awarded grant funding in the amount of $2,022,581. This is 48.98% of the entire $4,129,105 grant designated to the Bexar County Region. Bexar County also received 48.98%, whereas, the Cities of Balcones Heights, Leon Valley, Live Oak, and Universal City each received 0.51% or $20,986. The Police Department agreed to submit the joint grant application and administer the funds, which includes distributing the funds, monitoring the award, and submitting reports including performance measures and program assessment data. The City's funds from this grant will be used to purchase approximately 326 new mobile data terminals (MDT laptops). The new MDT laptops will be compatible with the new Computer Aided Dispatch/Records Management System (CAD/RMS) being implemented.

FEDERAL CATEGORICAL GRANTS (Continued)

American Recovery and Reinvestment Act (Continued)

The Aviation Department was awarded a grant from the DHS to design, engineer and construct a new centralized In-Line Checked Baggage Inspection System at San Antonio International Airport. The funds are to be utilized for construction of an integrated Consolidated Baggage Handling System in Terminal 1/B. The grant provides reimbursement up to a total of $14,385,466. A local match is required in this project.

HUD awarded the City CDBG-R funds in the amount $3,906,923 to "support shovel-ready projects and assist housing improvements." HUD has indicated that CDBG-R funds can be used to rehabilitate affordable housing and improve key public facilities, thus stabilizing communities and creating jobs locally. Shovel-ready projects typically mean capital improvements (streets, drainage, sidewalks and facility improvements).

HUD also awarded the City two grants totaling $6,974,286 for the Homeless Prevention and Rapid Re-housing Program. This grant provides financial assistance and services to prevent individuals and families from becoming homeless and help those who are experiencing homelessness to be quickly re-housed and stabilized and rental assistance, housing relocation, and stabilization services for low and moderate income citizens.

DHHS awarded $3,412,869 for cost of living increases and quality improvement for the Head Start Program. TWC through AWD awarded the City $12,975,622 in ARRA funds for the Child Care Delivery System program. The funds will provide child care services to 1,476 children on average per month.

DHHS through TDHCA awarded $3,124,174 for the Community Service Block Grant program for the purpose of creating and sustaining economic growth and employment opportunities in our community. These funds will focus on individuals and families who are at or below the 200% poverty income guidelines.

Cops Hiring Recovery Program	(DOJ)	$ 10,354,400
Edward Byrne Memorial Justice Assistance	(DOJ)	2,022,581
In-Line Checked Baggage Inspection System	(DHS)	14,385,466
CDBG Recovery Funds	(HUD)	3,906,923
Homeless Prevention & Rapid Re-Housing Program	(HUD)	6,974,286
Head Start Program	(DHHS)	3,412,869
Child Care Delivery System	(DHHS/TWC/AWD)	12,975,622
Community Service Block Grant	(DHHS/TDHCA)	3,124,174
Total FY 2009 Awards		$ 57,156,321

FEDERAL BLOCK GRANTS

During fiscal year 2009, the City received Block Grants from HUD under the Community Development Block Grant Program (CDBG) and the HOME Investment Partnership Act Program. The City's Grants Monitoring and Administration Department administers and monitors the Block Grant Programs for expenditure in accordance with HUD regulations and guidelines. A program expenditure plan, which is reviewed and approved by HUD, is adopted by the City Council for each annual Block Grant Entitlement. Additional information on the Block Grant Entitlements awarded to the City for fiscal year 2009 is as follows:

Community Development Block Grant Program - Year 34 (Fiscal Year 2009) - $14,384,933

Since 1977, the City has received annual entitlements from HUD for the CDBG Program under Title I of the Housing and Community Act of 1974. The aim of the program is to assist cities in the development of viable urban communities, including adequate housing and a suitable living environment, and to assist in expanding economic opportunities principally for persons of low and moderate income. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $14,384,933 for the 34th entitlement year of the program. The previous year's annual entitlement grant was $14,830,696.

HOME Investment Partnership Act Program - Year 17 (Fiscal Year 2009) - $6,416,821

Fiscal Year 2009 was the 17th year the City received an annual entitlement from HUD for the HOME Investment Partnership Act Program under Title II of the National Affordable Housing Act of 1990. The objective of the program is to address critical local housing needs. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $6,416,821 for the 17th entitlement year of the program. The previous year's entitlement grant was $6,670,354.

FEDERAL COGNIZANT AGENCY

The Single Audit Act designates the selection of a Federal "cognizant" agency for each grantee's Single Audits. The U.S. Department of Housing and Human Services (DHHS), Office of Inspector General was designated as the Federal cognizant agency for the City of San Antonio beginning for the fiscal year ending 2006.

STATE CATEGORICAL GRANTS

Interlibrary Services - $182,970

TSLAC awarded the San Antonio Library Systems the amount of $182,970 in fiscal year 2009 compared to $185,933 in the prior year. Loan Star Libraries Grant FY2009 was used to continue to provide live homework help to students in kindergarten through college prep/adult learn math, science, social studies and English. The Tutor.com on-line tutoring services provides on demand one-on-one tutoring in both English and Spanish. Grant funds were also used to purchase equipment and technology in support of library programming and outreach services and for the provision of staff training and professional development.

Public Health - $2,429,424

DSHS awarded the SAMHD the amount of $2,429,424 in fiscal year 2009 for Public Health State Supported Projects compared to $1,297,117 in 2008. These funds are to provide support services for a variety of public health programs.

STATE CATEGORICAL GRANTS (Continued)

Criminal Justice - $1,050,485

The City was awarded Criminal Justice grants totaling $1,050,485 in fiscal year 2009 compared to $993,972 in the prior year. The Police Department was awarded a grant totaling $1,050,485 from the Texas Automobile Burglary and Theft Prevention Authority (TABTPA) 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 - $615,833

Environmental Quality grants totaling $615,833 were awarded in fiscal year 2009 compared to $1,450,230 awarded to the City in the previous year. The Texas Commission on Environmental Quality (TCEQ), through AACOG was awarded four grants. The first and second grant to the Solid Waste Management Department in an amount of $59,509 and for $118,724 to the Conventions, Sports and Entertainment Facilities to provide support for environmental programming efforts related to recycling, solid waste stream reduction and municipal enforcement of anti-dumping laws. The third grant was awarded to the SAMHD in the amount of $431,100 to support the Public Center for Environmental Health (PCEH), in the operation and maintenance of air monitors. The fourth grant in the amount of $6,500 was awarded to the Aviation Department for the Texas Emissions Reduction Program to provide financial incentives to eligible individuals, businesses or local governments to reduce emissions from polluting vehicles and equipment.

Regional Solid Waste Pass-Through Grants	(TCEQ/AACOG)	$	59,509
Regional Conventions, Sports, and Entertainment Pass-Through Grants	(TCEQ/AACOG)		118,724
San Antonio Air Monitoring Project	(TCEQ)		431,100
Texas Emission Reduction	(TCEQ)		6,500
Total		$	615,833

Emergency Management - $33,044

An Emergency Management grant in the amount of $33,044 was awarded in fiscal year 2009 compared to $30,848 awarded for the same grant in the previous year. This grant was awarded by DSHS through the Southwest Texas Regional Advisory Council to be used for eligible Emergency Management Services expenses. The City additionally received $2,402,308 of grants awarded in fiscal year 2008 stemmed from numerous hurricane and tropical storms. The City did not receive these awards in fiscal year 2009 as severe weather events did not transpire during that year.

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, 2009 is presented in the "Schedule of Findings and Questioned Costs" for federal awards beginning on page 176 of this report, while the "Schedule of Findings and Questioned Costs" for state awards begins on page 199. A status report for each prior year's audit findings entitled "Status of Prior Year Findings" is also available in this document beginning on page 184 for federal awards and page 207 for state awards. This report describes the City's planned corrective action in response to 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 2009, as in past years, the City has been the recipient of both Federal and State grants in support of acquisition of facilities, construction of public improvements, and the operation of programs, which the City would have been unable to undertake from local resources. These 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 authorizations of our grant programs and its leadership along with the City Manager, Deputy City Managers, Assistant City Managers, their staff, and to all of 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
Chief Financial Officer
City of San Antonio

City of San Antonio, Texas
Schedule of Federal & State Grants Awarded in Fiscal Year 2009
(With comparative totals for Fiscal Year 2008)

Grant Type	Fiscal Year 2009	Fiscal Year 2008	Variance Increase (Decrease)
Federal Categorical Grants:			
Social Services	$ 101,672,080	$ 100,127,190	$ 1,544,890
Air Transportation	16,889,528	11,150,549	5,738,979
Interlibrary Services	735,369	796,807	(61,438)
Public Health	12,673,481	14,671,270	(1,997,789)
Recreation and Arts	1,652,291	984,148	668,143
Criminal Justice	3,695,226	3,419,937	275,289
Economic Development	216,308	392,000	(175,692)
Urban Redevelopment	8,635,899		8,635,899
Environmental Quality		252,000	(252,000)
Emergency Management	13,270,045	16,752,613	(3,482,568)
American Recovery and Reinvestment Act	57,156,321		57,156,321
Total Federal Categorical Grants	$ 216,596,548	$ 148,546,514	$ 68,050,034
Federal Block Grants:			
Community Development Block Grant - Year 34 FY 2009 & Year 33 FY 2008	$ 14,384,933	$ 14,830,696	$ (445,763)
HOME Program Block Grant - Year 17 FY 2009 & Year 16 FY 2008	6,416,821	6,670,354	(253,533)
Total Federal Block Grants	$ 20,801,754	$ 21,501,050	$ (699,296)
Total Federal Grants	$ 237,398,302	$ 170,047,564	$ 67,350,738
State Categorical Grants:			
Interlibrary Services	$ 182,970	$ 185,933	$ (2,963)
Public Health	2,429,424	1,297,117	1,132,307
Criminal Justice	1,050,485	993,972	56,513
Environmental Quality	615,833	1,450,230	(834,397)
Emergency Management	33,044	2,433,156	(2,400,112)
Total State Categorical Grants	$ 4,311,756	$ 6,360,408	$ (2,048,652)
Grand Totals State	$ 4,311,756	$ 6,360,408	$ (2,048,652)
Grand Totals Federal	237,398,302	170,047,564	67,350,738
Grand Totals	$ 241,710,058	$ 176,407,972	$ 65,302,086

AGENCIES AND PROGRAM ACRONYMS

AACOG	- Alamo Area Council of Governments
AALS	- Alamo Area Library System
AWD	- Alamo Workforce Development, Inc.
CCDS	- Child Care Delivery System
CDBG	- Community Development Block Grant
CJD	- Office of the Governor - Criminal Justice Division
DADS	- Texas Department on Aging and Disability Services
DSHS	- Texas Department of State Health Services
DHHS	- U.S. Department of Health and Human Services
DHHSC	- Texas Health and Human Services Commission
DHS	- U.S. Department of Homeland Security
DOD	- U.S. Department of Defense
ED	- U.S. Department of Education
DOJ	- U.S. Department of Justice
DOT	- U.S. Department of Transportation
DSHS	- Texas Department of State Health Services
FAA	- Federal Aviation Administration
GDEM	- Office of the Governor - Division of Emergency Management
HIDTA	- High Intensity Drug Trafficking Area
HUD	- U.S. Department of Housing and Urban Development
IMLS	- Institute of Museum and Library Services
NEA	- National Endowments for the Arts
ONDCP	- Office of the National Drug Control Policy
SAMHD	- San Antonio Metropolitan Health District
TABTPA	- Texas Automobile Burglary and Theft Prevention Authority
TCA	- Texas Commission on the Arts
TCEQ	- Texas Commission on Environmental Quality
TDHCA	- Texas Department of Housing and Community Affairs
TEA	- Texas Education Agency
TSLAC	- Texas State Library and Archives Commission System
TWC	- Texas Workforce Commission
TxDOT	- Texas Department of Transportation
USDA	- U. S. Department of Agriculture

Financial Section

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Independent Auditor's Report

Audit • Tax • Advisory

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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, 2009, 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 67%, 71% and 0%, 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 on the reports 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 other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to 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, 2009, 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 31, 2010 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.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 160, and Schedules of Funding Progress on pages 161 - 164 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 accompanying supplementary information 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 accompanying Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and the *State of Texas Single Audit Circular* and are not a required part of the basic financial statements of the City. The schedules of expenditures of federal and 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, are 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 the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Grant Thornton LLP

Dallas, Texas
March 31, 2010

City of San Antonio, Texas

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, 2009. 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 $2,827,173 (net assets). Of this amount, $171,052 (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 $946,357, an increase of $41,657 compared to the fiscal year 2008 fund balance. The total unreserved fund balance of $552,721 is available for spending at the government's discretion. Of this amount, $97,507 is designated and $445,214 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $190,407 or 25.0% 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 Solid Waste 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, 2009.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Current and Other Assets	$ 1,247,893	$ 1,224,028	$ 245,770	$ 358,995	$ 1,493,663	$ 1,583,023
Capital Assets	3,519,907	3,335,579	540,223	417,333	4,060,130	3,752,912
Total Assets	4,767,800	4,559,607	785,993	776,328	5,553,793	5,335,935
Current and Other Liabilities	390,096	379,171	51,399	44,844	441,495	424,015
Long-term Liabilities	1,880,285	1,802,279	404,840	415,165	2,285,125	2,217,444
Total Liabilities	2,270,381	2,181,450	456,239	460,009	2,726,620	2,641,459
Net Assets:						
Investments in Capital Assets, Net of Related Debt	2,200,616	2,092,623	260,679	208,894	2,461,295	2,301,517
Restricted	128,727	122,537	66,099	76,178	194,826	198,715
Unrestricted	168,076	162,997	2,976	31,247	171,052	194,244
Total Net Assets	$ 2,497,419	$ 2,378,157	$ 329,754	$ 316,319	$ 2,827,173	$ 2,694,476

For the year-ended September 30, 2009, total assets exceeded liabilities by $2,827,173. The largest portion of the City's net assets, $2,461,295 (87.1%) 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 liabilities.

Of the total net assets, $194,826, 6.9%, represents resources that are subject to external restrictions on how they may be used. The remaining $171,052, 6.0%, 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, 2009
(With Comparative Totals for September 30, 2008)

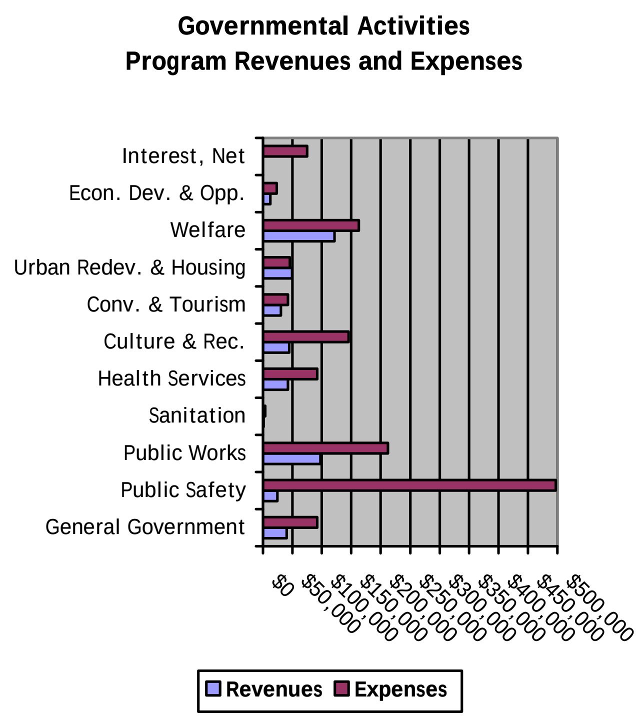
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Revenues:						
Program Revenues:						
Charges for Services	$ 176,136	$ 169,107	$ 152,170	$ 156,920	$ 328,306	$ 326,027
Operating Grants and Contributions	206,356	198,736			206,356	198,736
Capital Grants and Contributions	81,114	49,577	31,115	36,987	112,229	86,564
General Revenues:						
Property Taxes	407,183	379,457			407,183	379,457
Other Taxes	323,467	341,976			323,467	341,976
Revenues from Utilities	275,993	304,545			275,993	304,545
Investment Earnings	17,502	39,463	4,769	12,010	22,271	51,473
Miscellaneous	24,017	30,299	464	12	24,481	30,311
Total Revenues	1,511,768	1,513,160	188,518	205,929	1,700,286	1,719,089
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	92,415	109,850			92,415	109,850
Public Safety	497,274	529,762			497,274	529,762
Public Works	212,256	220,267			212,256	220,267
Sanitation	3,953	3,000			3,953	3,000
Health Services	92,351	90,443			92,351	90,443
Culture and Recreation	145,386	142,537			145,386	142,537
Convention and Tourism	42,512	69,734			42,512	69,734
Urban Redevelopment and Housing	45,533	39,700			45,533	39,700
Welfare	162,956	168,585			162,956	168,585
Economic Development and Opportunity	23,260	22,479			23,260	22,479
Interest on Long-Term Debt, Net	75,108	71,103			75,108	71,103
Business-Type Activities:						
Airport System			81,229	80,505	81,229	80,505
Parking System			8,984	10,382	8,984	10,382
Solid Waste			88,900	82,002	88,900	82,002
Total Expenses	1,393,004	1,467,460	179,113	172,889	1,572,117	1,640,349
Change in Net Assets						
Before Transfers and Special Items	118,764	45,700	9,405	33,040	128,169	78,740
Special Items		8,320	4,528	(8,320)	4,528	
Transfers	498	(5,184)	(498)	5,184		
Net Change in Net Assets	119,262	48,836	13,435	29,904	132,697	78,740
Beginning, Net Assets	2,378,157	2,329,321	316,319	286,415	2,694,476	2,615,736
Ending, Net Assets	$ 2,497,419	$ 2,378,157	$ 329,754	$ 316,319	$ 2,827,173	$ 2,694,476

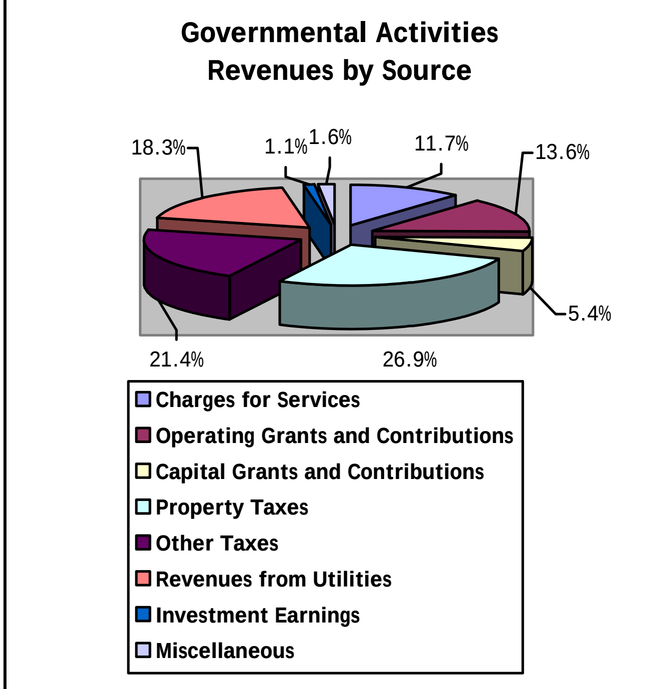
The City's total revenues were $1,700,286 for fiscal year-ended September 30, 2009. Revenues from governmental activities totaled $1,511,768 and revenues from business-type activities totaled $188,518. General revenues represented 62.0% of the City's total revenue, while program revenues provided 38.0% of revenue received in fiscal year 2009.

Expenses for the City totaled $1,572,117. Governmental activity expenses totaled $1,393,004, or 88.6% 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 $119,262. The reason for the change is as follows:

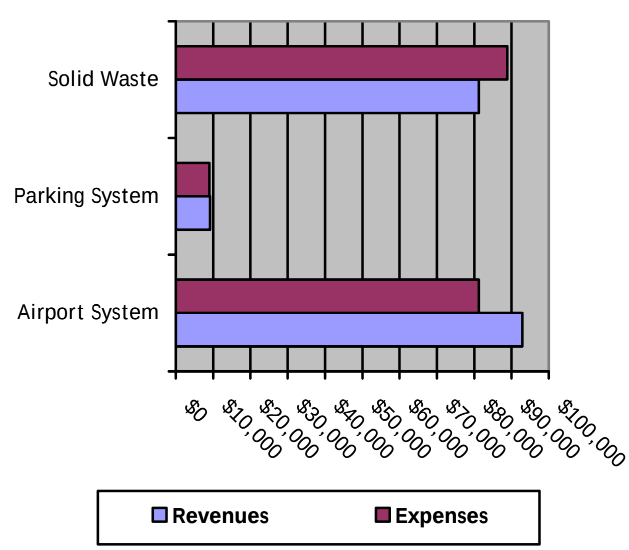
- Grants and Contributions revenues increased by $39,157 primarily due to amounts received for the following: 1) $8,158 fair value of land received as part of the exchange transaction involving the Riverbend Parking Garage; 2) Increased capital project funding from third party contributions in the amount of $8,014; 3) $2,350 received from CPS Energy to fund an underground conversion project and BRAC; 4) $3,049 land contribution from the San Antonio Public Library Foundation; and 5) $12,912 received by the Convention Center Hotel Finance Corporation for the completion of the Grand Hyatt Hotel.
- Revenues from Property Taxes increased by $27,726 due to the combination of a small average increase in property appraisals, population growth, and an increased collection percentage compared to the prior fiscal year. Net taxable assessed values increased from $65,954,867 in fiscal year 2008 to $72,541,142 in fiscal year 2009, resulting in additional revenues of $30,208 in current property taxes.
- Other Taxes decreased $18,509 due to a downturn in the economy and a decrease in overall tourism for the City. The downturn in the economy resulted in a decrease in tourism, along with a decrease in convention business and overall room rates, caused Hotel Occupancy Taxes and Sales and Use Taxes to decrease by $9,614, and $10,573, respectively, from the prior year.
- CPS Energy revenues decreased by $28,337 due to overall lower natural gas prices. SAWS revenues also decreased by $215 due to a very dry summer season, which triggered watering restrictions resulting in decreased water usage causing a decrease in Revenues from Utilities of $28,552.
- Investment Earnings decreased by $21,961 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.
- General Government expenses were reduced $17,435 from fiscal year 2008 as there was $6,931 less being allocated to the Employee Health Benefits Fund due to a hiring freeze, which decreased the overall number of employees city-wide. Also, costs that were capitalized in construction in progress for projects that did not meet the City's capitalization threshold in fiscal year 2008 decreased general government expenses by $10,023.

- Public Safety expenses decreased $32,488 from the prior fiscal year due to $64,497 of expenses incurred in the prior year but not in fiscal year 2009. In fiscal year 2008, the City implemented GASB Statement No. 45, which initially increased public safety expenses for postemployment benefits by $6,867. Fire and Police annual and sick leave expenditures were higher in fiscal year 2008 due to higher leave liability balances which approximated $40,474. Also, the amount of accrued leave balances decreased from 2008 to 2009 by $21,232, thereby decreasing expenses. These decreases were offset by and increase of $32,521 caused by the hiring of an additional 100 police officers and 60 fire fighters as authorized in the 2009 adopted budget.
- Public Works expenses decreased $8,011 in fiscal year 2009 from fiscal year 2008. This is due to approximately $7,751 of various sidewalk improvement projects which met the City's capitalization threshold and have been capitalized as depreciable assets rather than expensed.
- Convention and Tourism decreased $27,222 primarily due to the Convention Center Hotel opening in fiscal year 2008. The large construction expenses have substantially decreased due to the hotel's opening; most costs now are paying for operations and minor maintenance items.
- Urban Redevelopment and Housing increased $5,833 from fiscal year 2008. This is due to the awards for the HOME and CDBG grant programs increasing $2,293 and $1,906, respectively, from the fiscal year 2008. As the awards increase, so do the various expenses associated with these grants.
- Welfare expenses decreased $5,629 from fiscal year 2008 due to a decrease in HOME fund related project expenditures from the prior year.

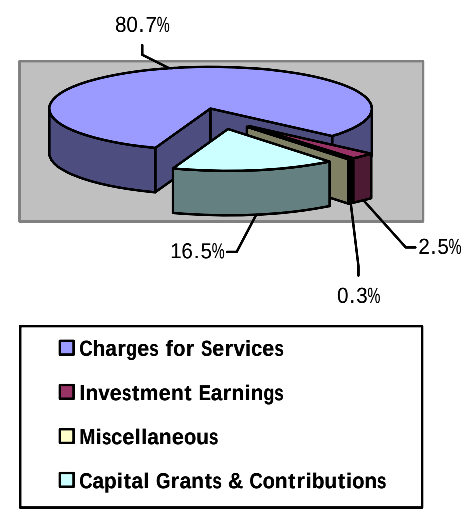
Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $195,971, which is $2,064 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 $187,271 compared to prior year's expenses of $172,889.

Business-Type Activities Expenses and Revenues



Business-Type Activities Revenues by Source



Business-Type Activities increased the City's net assets by $13,435, primarily because of the following:

- Charges for Services decreased by $4,750 primarily because of the loss of revenue from the Riverbend parking garage sale and Airport System decreases of revenues in the amount of $2,881. Concession and parking revenues decreased due to a decline in passenger travel through San Antonio International Airport, caused by a decline in tourism and convention business.
- A $5,872 decrease in Capital Grants and Contributions in the Airport System was primarily attributed to a $5,386 reduction in grant funded capital project expenses related to the Airport's ongoing expansion project, as well as a decrease of $547 in passenger facility charge revenues due to decreased passenger travel at San Antonio International.
- Yield amounts are lower than the prior year, Investment Earnings decreased by $7,241, 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.
- Special Items increased by $4,598 as a result of an exchange transaction that sold the Riverbend Parking Garage for property valued at $8,158 and cash proceeds of $6,900, less related closing fees. This resulted in a gain on the sale in the amount of $12,686, of which $8,158 was subsequently contributed to governmental activities from the City's business-type activities. For more information on this item, please see Note 1, Special Items.
- Airport System expenses increased by $724 primarily due to increased personnel costs and contractual services and a decrease in non-capitalized costs associated with the growth of both San Antonio International and Stinson Airports.
- Parking System expenses increased by $6,760 due to the donation of land to governmental activities in association with the Riverbend parking garage sale.
- Solid Waste expenses increased by $6,898, 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, increased depreciation costs related to the automated garbage trucks and $4,835 in other non-operating expenses.

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 expenditures. 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 $9,217, which is primarily attributable to: (1) a $15,791 increase in property tax and related penalties and interest revenues in the General Fund, (2) a $8,862 decrease in sales and use tax revenues in the General Fund, (3) a $11,746 increase in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $9,690 decrease in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $1,983 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 decrease in sales and use taxes and occupancy taxes are results of a downturn in the economy and decline in tourism, convention business, and room rates.

The total fund balance of the General Fund at year-end was $206,507, an increase of $959 from the total fund balance of $205,548 in fiscal year 2008. The total unreserved General Fund balance for fiscal year 2009 is $190,407, which represents $90,099 in designated and $100,308 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, decreased by $7,473 from the previous year's balance. In addition, the City's financial reserves were increased $7,105 in fiscal year 2009. 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 $112,924, an increase of $6,976 from the total fund balance of $105,948 in fiscal year 2008. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $6,722. The City engaged in a grant reconciliation effort that began in fiscal year 2006 and continued in fiscal year 2009. 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 three years from general revenues.

General Fund Budgetary Highlights

Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 98,832	$ 101,315	$ 80,141
Public Safety	497,858	490,303	488,431
Public Works	12,046	12,027	12,088
Health Services	67,653	67,247	66,405
Sanitation	3,395	3,244	3,300
Welfare	43,594	45,807	43,937
Culture and Recreation	79,378	76,147	75,995
Economic Development and Opportunity	3,563	3,596	3,114
Transfers to Other Funds	112,676	86,413	86,413
Total	$ 918,995	$ 886,099	$ 859,824

Changes in original budget appropriations to the final amended budget appropriations were a $32,896 decrease in appropriations. This decrease can be summarized by the following:

- General Government had a $2,483 increase composed of a $7,773 increase of budget carry forwards and a $5,290 decrease in budget. Of the $7,773 of budget carryforwards, $5,956 consists of non-departmental and one-time projects carryforwards, while the remainder represents carryforwards for other departments.
- Of the $7,555 decrease in Public Safety, $10,420 represents budget decreases with an increase of $2,865 from budget carryforwards. The budget decrease consisted primarily of a reduction in the flexible benefit contributions of $5,249 due to savings in the city's self-insurance programs causing a reduction to the assessment charged to the department, a reduction in the fuel budget of $2,566 due to reductions in gasoline prices compared to fiscal year 2008, and a reduction of $896 in the general liability assessment.
- Of the $3,231 decrease in Culture and Recreation, $3,851 relates to the reduction in budgets offset by an increase of $620 in budget carryforwards. The budget decrease consisted of a decrease of $1,118 from savings in the city's self-insurance programs causing a reduction to the assessment charged to the department, $228 from the general liability, $944 in projected savings from the hiring freeze, and a $578 reduction in the fuel budget.

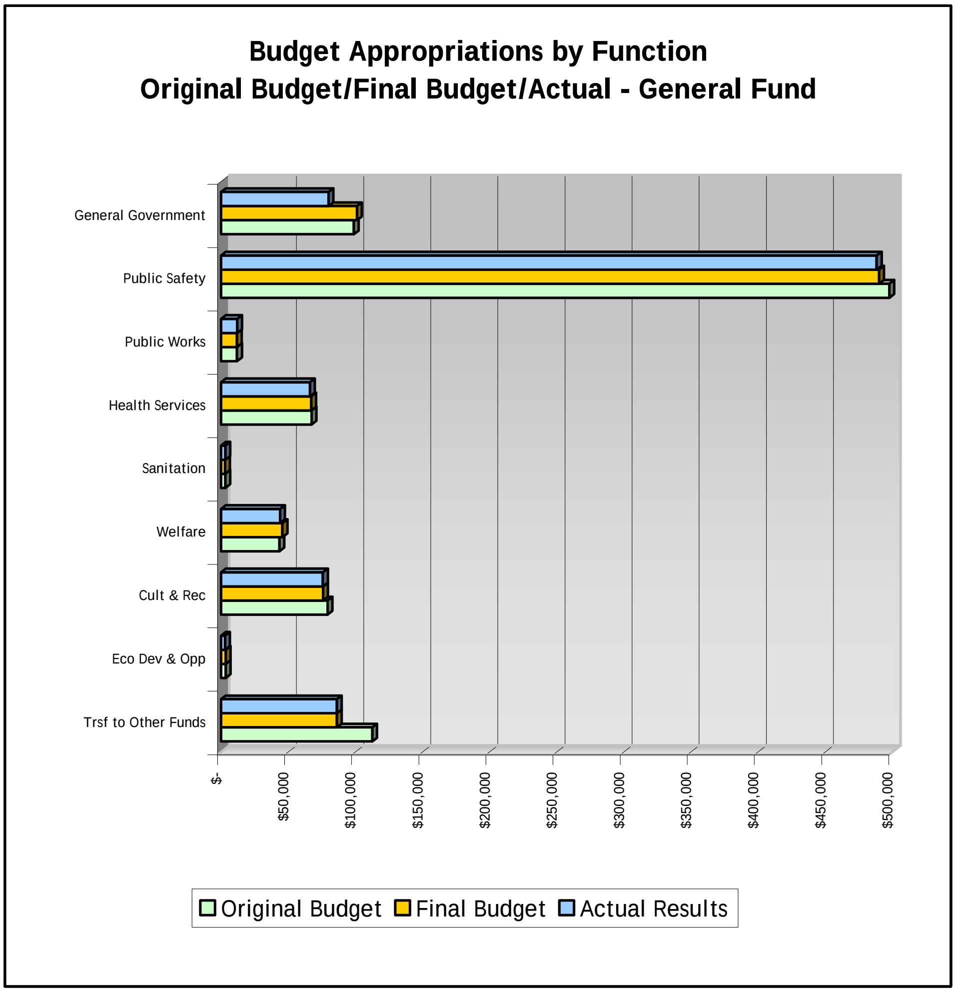
City of San Antonio, Texas - 8 - Amounts are expressed in thousands

- The $26,263 decrease in transfers to the Solid Waste Fund, streets and drainage projects and animal care.

Final budgeted appropriations for the General Fund were $886,099, while actual expenditures on a budgetary basis were $859,824 creating a positive variance of $26,275. Significant variances are as follows:

- General Government had a $21,174 positive variance. The City budgeted the annual cost of living adjustment and the budget for retiree payouts in the General Government function while actual payouts are charged across all functions. Salary reserves represented $15,410 in fiscal year 2009. Public Safety typically receives 70% of these funds. Further savings were achieved across departments as a result of hiring being delayed during the fiscal year.
- Public Safety had a $1,872 positive variance as the police and fire departments were the largest beneficiaries of motor fuel savings that totaled $3,586 due to lower prices.
- Health Services had an $842 positive variance due primarily to personal services savings because of the hiring delays in place during much of the fiscal year.
- Welfare had a $1,870 positive variance due to $3,351 in contracts carried forward to fiscal year 2010 for contractual services and direct welfare payments. This offset a negative variance of $1,735 in personal services that occurred because the budgets for retiree payouts and cost of living adjustments were located in General Government.

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 Solid Waste 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. Solid Waste 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.

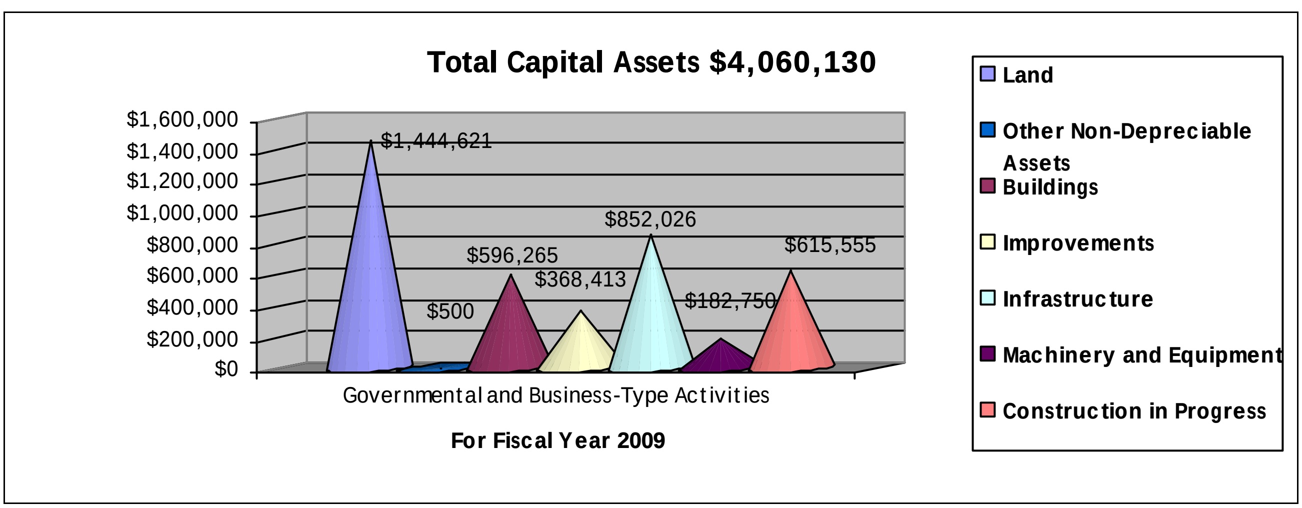
Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009 amounts to $4,060,130 (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 $307,218, which comprises an $184,328 increase in governmental activities and a $122,890 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	$ 1,430,280	$ 1,356,141	$ 14,341	$ 14,341	$ 1,444,621	$ 1,370,482
Other Non-Depreciable Assets	500	500			500	500
Buildings	457,223	472,703	139,042	146,223	596,265	618,926
Improvements	232,070	222,640	136,343	127,720	368,413	350,360
Infrastructure	852,026	851,846			852,026	851,846
Machinery and Equipment	159,451	151,335	23,299	7,596	182,750	158,931
Construction in Progress	388,357	280,414	227,198	121,453	615,555	401,867
Total	$ 3,519,907	$ 3,335,579	$ 540,223	$ 417,333	$ 4,060,130	$ 3,752,912

During fiscal year 2009, the City transferred $99,059 of construction in progress to depreciable asset classes for various completed projects of buildings, improvements, and infrastructure.

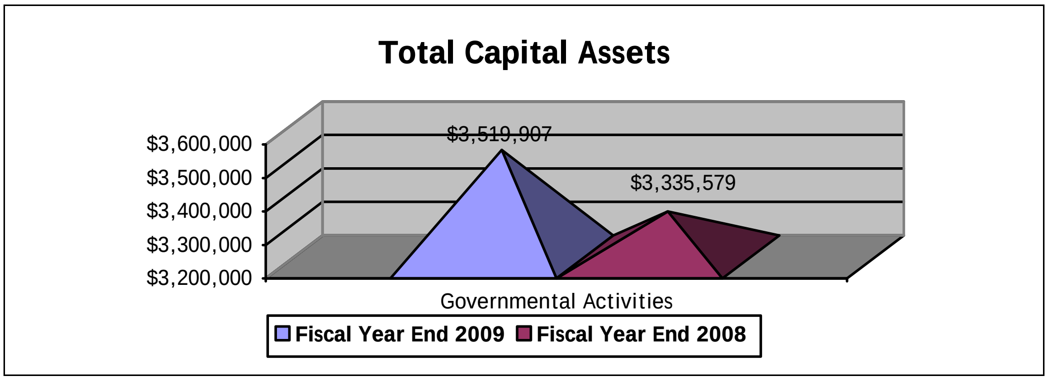
The following schedule provides a summary of the City's capital assets:

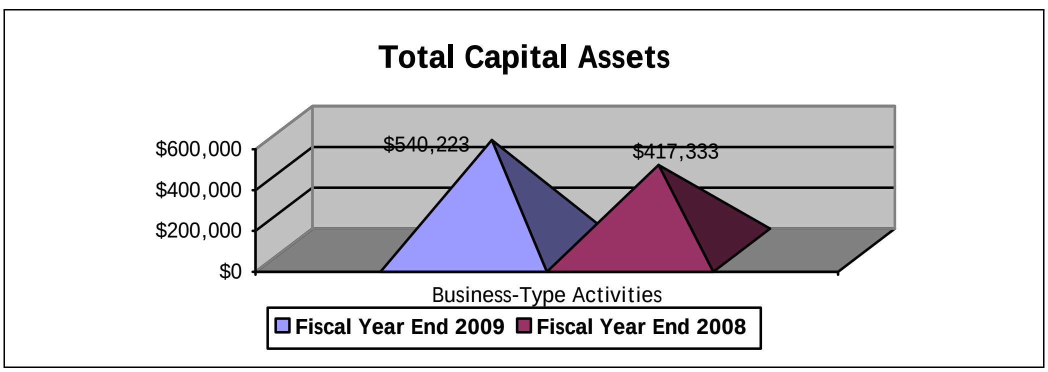


City of San Antonio, Texas - 10 - Amounts are expressed in thousands

Change in Capital Assets September 30, 2009	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 5,280,103	$ 605,499	$ 5,885,602
Additions	318,318	137,978	456,296
Deletions	(31,788)	(6,233)	(38,021)
Accumulated Depreciation	(2,046,726)	(197,021)	(2,243,747)
Ending Balance	$ 3,519,907	$ 540,223	$ 4,060,130

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.

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

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $2,124,199 in bonds, certificates, tax notes and commercial paper outstanding, an increase of 4.0% 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.

September 30, 2009 and 2008

	Governmental Activities	
	2009	**2008**
Bonds Payable:		
General Obligation Bonds	$ 731,270	$ 717,275
Tax-Exempt Certificates of Obligation	348,235	291,380
Taxable Certificates of Obligation	155	225
Tax Notes	48,095	17,925
Commercial Paper	25,805	10,500
Revenue Bonds	570,252	578,412
Capital Appreciation Bonds (CAB)	18,812	17,620
Total	$ 1,742,624	$ 1,633,337

	Business-Type Activities	
	2009	**2008**
Bonds Payable:		
General Obligation Bonds	$ 18,480	$ 9,495
Tax-Exempt Certificates of Obligation	2,715	2,805
Revenue Bonds	360,380	395,695
Total	$ 381,575	$ 407,995

Governmental Activities

In 2009, the City issued additional indebtedness for a total of $220,790. The $220,790 was composed of $75,060 in general obligation bonds, $85,005 in certificates of obligations, $45,420 in tax notes, and $15,305 in commercial paper.

In December 2008, the City issued $75,060 in General Improvement Bonds, Series 2008 and $85,005 Combination Tax and Revenue Certificates, Series 2008. The general obligation bonds will be utilized to finance general improvements of the City, including improvements to street, bridges, sidewalks, parks, recreation, open space, athletics, drainage, library and public health facilities. Proceeds of the certificates of obligation will be utilized to fund permanent public improvements.

In December 2008, the City issued $15,320 in tax notes that will be used to fund updates and improvements to the City's information technology systems. Additionally, in May 2009, the City issued an additional $30,100 in tax notes to finance general improvements of the City including streets, parks and drainage.

Business-Type Activities

In November 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.

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

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2009 are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AAA / A-1+	Aa1	AA+
Hotel Occupancy Tax Bonds (Prior Lien)	A+	Aa3	A+
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
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 gross assessed valuation for the fiscal year-ended 2009 was $83,852,318, which provides a debt ceiling of $8,385,232.

Currently Known Facts

For more information on these items, please see Note 19, 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

Basic Financial Statements

Statement of Net Assets
As of September 30, 2009
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Cash and Cash Equivalents	$ 27,175	$ 1,382	$ 28,557	$ 329,362
Cash Collateral from Securities Lending				209,881
Investments	360,531	18,921	379,452	207,838
Receivables, Net	95,538	12,802	108,340	292,325
Due from:				
Fiduciary Funds	536		536	
Other Governmental Agencies	3,383		3,383	8,928
Internal Balances	(6,435)	6,435		
Materials and Supplies, at Cost	6,538	650	7,188	165,387
Prepaid Expenses	1,040	22	1,062	149,079
Other Assets				1,303
Deposits	213	50	263	
Restricted Assets:				
Cash and Cash Equivalents	74,008	18,864	92,872	106,115
Investments	585,050	177,585	762,635	930,012
Receivables, Net	57,736	6	57,742	27,539
Prepaid Expenses	926		926	593,407
Deposits	261		261	
Deferred Charges				5,977
Due from:				
Other Governmental Agencies	11,114	44	11,158	
Capital Assets:				
Non Depreciable	1,819,137	241,539	2,060,676	2,069,849
Depreciable, Net	1,700,770	298,684	1,999,454	7,583,675
Assets Held for Resale				1,265
Prepaid Rent Long Term - Leaseback				437,023
Net OPEB Asset				32,915
Other Noncurrent Assets				36,410
Unamortized Bond Issuance Costs	30,279	9,009	39,288	17,937
Total Assets	4,767,800	785,993	5,553,793	13,206,227
Liabilities:				
Accounts Payable and Other Current Liabilities	104,543	11,601	116,144	482,598
Unearned Revenue		989	989	2,840
Securities Lending Obligation				209,881
Accrued Interest	10,978	15	10,993	
Due to:				
Other Governmental Agencies	725		725	2,352
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	53,410	10,533	63,943	34,005
Unearned Revenue	29,419		29,419	
Accrued Interest	2,851	4,930	7,781	8,453
Due to:				
Other Governmental Agencies	2,774		2,774	
Noncurrent Liabilities:				
Due Within One Year	185,396	23,331	208,727	224,419
Due in More Than One Year	1,880,285	404,840	2,285,125	7,190,519
Total Liabilities	2,270,381	456,239	2,726,620	8,155,067
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,200,616	260,679	2,461,295	4,118,602
Restricted for:				
Debt Service	111,927	32,991	144,918	27,910
Capital Projects		33,108	33,108	14,334
Renewal and Replacement				352,334
Perpetual Care:				
Expendable	12,151		12,151	
Nonexpendable	4,649		4,649	
Unrestricted	168,076	2,976	171,052	537,980
Total Net Assets	$ 2,497,419	$ 329,754	$ 2,827,173	$ 5,051,160

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

Statement of Activities

Year-Ended September 30, 2009

(In Thousands)

		PROGRAM REVENUES		
FUNCTION/PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	$ 92,415	$ 29,323	$ 618	$ 10,071
Public Safety	497,274	9,026	12,957	2,636
Public Works	212,256	50,266	15,395	31,939
Sanitation	3,953		457	387
Health Services	92,351	26,518	15,857	16
Culture and Recreation	145,386	34,483	3,993	6,200
Convention and Tourism	42,512	1,308	3,251	25,834
Urban Redevelopment and Housing	45,533	22,949	24,972	1,250
Welfare	162,956	122	118,643	2,774
Economic Development and Opportunity	23,260	2,141	10,213	7
Amortization of Issuance Cost	(3,531)			
Amortization of Bond (Premium)/Discount	5,542			
Amortization of Refunding Charges	(5,497)			
Interest on Long-Term Debt	78,594			
Total Governmental Activities	1,393,004	176,136	206,356	81,114
Business-Type Activities:				
Airport System	81,229	61,764		31,115
Parking System	8,984	9,143		
Solid Waste Management	88,900	81,263		
Total Business-Type Activities	179,113	152,170		31,115
Total Primary Government	$ 1,572,117	$ 328,306	$ 206,356	$ 112,229
Discretely Presented Component Units:				
CPS Energy	$ 2,141,999	$ 2,244,106	$ -	$ 30,218
San Antonio Water System	369,330	377,909		132,959
Brooks Development Authority	16,351	16,998		4,236
City South Management Authority	240			
Main Plaza Conservancy	775	19	1,171	
Municipal Golf Association - San Antonio	6,399	6,522		
Port Authority of San Antonio	38,990	39,336		245
SA Energy Acquisition Corporation	70,544	69,725		
San Antonio Development Agency	493	807	68	
San Antonio Education Facilities Corporation				
San Antonio Housing Trust Foundation, Inc.	793	8	828	
South Texas Business Fund	1,291	658	912	
Westside Development Corporation	298		110	
Total Component Units	$ 2,647,503	$ 2,756,088	$ 3,089	$ 167,658

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, 2009
(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (52,403)	$ -	$ (52,403)	$ -
(472,655)		(472,655)	
(114,656)		(114,656)	
(3,109)		(3,109)	
(49,960)		(49,960)	
(100,710)		(100,710)	
(12,119)		(12,119)	
3,638		3,638	
(41,417)		(41,417)	
(10,899)		(10,899)	
3,531		3,531	
(5,542)		(5,542)	
5,497		5,497	
(78,594)		(78,594)	
(929,398)		(929,398)	
	11,650	11,650	
	159	159	
	(7,637)	(7,637)	
	4,172	4,172	
(929,398)	4,172	(925,226)	
			132,325
			141,538
			4,883
			(240)
			415
			123
			591
			(819)
			382
			43
			279
			(188)
			279,332
407,183		407,183	
221,746		221,746	
5,741		5,741	
33,396		33,396	
58,800		58,800	
3,784		3,784	
275,993		275,993	
17,502	4,769	22,271	(4,978)
24,017	464	24,481	2,476
			(29,726)
	4,528	4,528	
498	(498)		
1,048,660	9,263	1,057,923	(32,228)
119,262	13,435	132,697	247,104
2,378,157	316,319	2,694,476	4,804,056
$ 2,497,419	$ 329,754	$ 2,827,173	$ 5,051,160

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

Balance Sheet
Governmental Funds
As of September 30, 2009
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Cash and Cash Equivalents	$ 8,888	$ -	$ -	$ 10,297	$ 19,185
Investments	124,301			129,972	254,273
Receivables, Net	84,365			8,469	92,834
Prepaid Expenditures	17				17
Due from:					
Other Funds	34,410			6,369	40,779
Other Governmental Agencies, Net	1,911			1,433	3,344
Materials and Supplies, at Cost	4,459			854	5,313
Deposits				75	75
Restricted Assets:					
Cash and Cash Equivalents		18,600	337	55,071	74,008
Investments		96,887	1,604	486,559	585,050
Receivables, Net		6,714	36,558	14,464	57,736
Prepaid Expenditures			908	18	926
Deposits				261	261
Due from:					
Other Funds		419	702	13,072	14,193
Other Governmental Agencies, Net				11,114	11,114
Total Assets	$ 258,351	$ 122,620	$ 40,109	$ 738,028	$ 1,159,108
Liabilities and Fund Balances:					
Liabilities:					
Vouchers Payable	$ 5,597	$ -	$ -	$ 4,781	$ 10,378
Accounts Payable - Other	4,881			8,543	13,424
Accrued Payroll	16,727			3,480	20,207
Accrued Leave Payable	8,406			635	9,041
Deferred Revenue	12,820				12,820
Due To:					
Other Funds	3,413			14,641	18,054
Other Governmental Agencies				14	14
Restricted Liabilities:					
Vouchers Payable			6,510	23,671	30,181
Accounts Payable - Other			4,367	15,209	19,576
Accrued Payroll			927	297	1,224
Accrued Leave Payable				14	14
Deferred Revenue		6,032	5,287	15,547	26,866
Amounts Held in Trust				2,429	2,429
Due to:					
Other Funds		3,664	27,998	14,087	45,749
Other Governmental Agencies			1,742	1,032	2,774
Total Liabilities	51,844	9,696	46,831	104,380	212,751
Fund Balances:					
Reserved:					
Reserved for Encumbrances	11,624			258,547	270,171
Reserved for Deposits				336	336
Reserved for Materials and Supplies	4,459			854	5,313
Reserved for Prepaid Expenditures	17		908	18	943
Reserved for Debt Service		112,924		3,949	116,873
Unreserved:					
Designated: General Fund	90,099				90,099
Designated: Special Revenue Funds				2,759	2,759
Designated: Permanent Funds				4,649	4,649
Undesignated: Major Funds	100,308		(7,630)		92,678
Undesignated: Special Revenue Funds				147,086	147,086
Undesignated: Capital Projects Funds				203,462	203,462
Undesignated: Permanent Funds				11,988	11,988
Total Fund Balances	206,507	112,924	(6,722)	633,648	946,357
Total Liabilities and Fund Balances	$ 258,351	$ 122,620	$ 40,109	$ 738,028	$ 1,159,108

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, 2009
(In Thousands)

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

Fund Balances - Total Governmental Funds		$ 946,357
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,430,280	
Other Non-Depreciable Assets	500	
Construction In Progress	388,357	
Buildings	714,133	
Improvements	316,460	
Infrastructure	2,349,470	
Machinery and Equipment	200,846	
Less: Accumulated Depreciation	(1,945,577)	
Total Governmental Capital Assets		3,454,469
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 15).		10,267
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.		1,917
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.		116,262
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	(1,716,819)	
Commercial Paper Payable	(25,805)	
Unamortized Discount/(Premium) on Bonds, Net	(46,566)	
Deferred Amount on Refunding	14,038	
Leases Payable	(9,941)	
Notes Payable	(53,355)	
Unamortized Bond Issuance Costs	30,279	
Net OPEB Obligation	(36,548)	
Accrued Interest	(13,829)	
Arbitrage Rebate	(182)	
Pollution Remediation Payable	(904)	
Compensated Absences	(172,221)	
		(2,031,853)
Net Assets of Governmental Activities		$ 2,497,419

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, 2009
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property	$ 248,260	$ 147,797	$ -	$ 10,284	$ 406,341
General Sales and Use	187,415			34,331	221,746
Selective Sales and Use	5,741				5,741
Gross Receipts Business	33,396				33,396
Occupancy				58,800	58,800
Penalties and Interest on Delinquent Taxes	2,303	1,366		115	3,784
Licenses and Permits	7,090				7,090
Intergovernmental	6,030		152,536	70,910	229,476
Revenues from Utilities	275,605				275,605
Charges for Services	42,800		297	100,429	143,526
Fines and Forfeits	13,111				13,111
Miscellaneous	10,784	768	891	18,188	30,631
Investment Earnings	2,874	2,075	35	10,712	15,696
Contributions				30,359	30,359
In-Kind Contributions			13,273		13,273
Total Revenues	835,409	152,006	167,032	334,128	1,488,575
Expenditures:					
Current:					
General Government	77,659	1,562	923	5,507	85,651
Public Safety	486,695		11,029	3,836	501,560
Public Works	12,088		17,959	73,080	103,127
Health Services	65,494		16,889	8,232	90,615
Sanitation	3,132		632		3,764
Welfare	40,544		121,107	760	162,411
Culture and Recreation	75,582		1,818	50,430	127,830
Convention and Tourism			119	20,811	20,930
Urban Redevelopment and Housing			1,388	42,312	43,700
Economic Development and Opportunity	3,011		322	16,974	20,307
Capital Projects				313,944	313,944
Debt Service:					
Principal Retirement		111,475		1,841	113,316
Interest		64,749		14,974	79,723
Issuance Costs				1,630	1,630
Total Expenditures	764,205	177,786	172,186	554,331	1,668,508
Excess (Deficiency) of Revenues Over (Under) Expenditures	71,204	(25,780)	(5,154)	(220,203)	(179,933)
Other Financing Sources (Uses):					
Issuance of Long-Term Debt				205,485	205,485
Issuance of Notes and Loans				1,768	1,768
Issuance of Commercial Paper				15,305	15,305
Premium/(Discount) on Long-Term Debt				3,034	3,034
Transfers In	13,750	32,756	10,084	355,217	411,807
Transfers Out	(83,995)		(3,779)	(328,035)	(415,809)
Total Other Financing Sources (Uses)	(70,245)	32,756	6,305	252,774	221,590
Net Change in Fund Balances	959	6,976	1,151	32,571	41,657
Fund Balances, October 1	205,548	105,948	(7,873)	601,077	904,700
Fund Balances, September 30	$ 206,507	$ 112,924	$ (6,722)	$ 633,648	$ 946,357

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, 2009

(In Thousands)

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

Net change in Fund Balances - Total Governmental Funds		$	41,657
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.			
Donated capital assets	11,207		
Expenditures for Capital Assets	276,630		
Pollution Remediation Capitalization	788		
Less: Current Year Depreciation	(97,221)		
Less: Current Year Deletions	(17,980)		173,424
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			6,381
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	(222,558)		
(Premium)/Discount on Long-term Debt	(3,034)		
Bond Issuance Costs	1,630		
Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net	3,487		
Principal Payments	113,316		(107,159)
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 15).			5,153
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.			(194)
Change in Net Assets of Governmental Activities		$	119,262

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2009
(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	$ 1,275	$ 107	$ 1,382	$ 7,990
Investments	15,822	3,099	18,921	106,258
Receivables, Net:				
Accounts	2,956	137	3,093	774
Accrued Interest	1		1	3
Accrued Revenue	3,084	6,624	9,708	10
Due from:				
Other Funds	272	10,911	11,183	1,533
Other Governmental Agencies, Net				39
Materials and Supplies, at Cost	552	98	650	1,225
Prepaid Expenses	22		22	1,023
Deposits		50	50	138
Total Unrestricted Assets	23,984	21,026	45,010	118,993
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	6,862	923	7,785	
Investments	25,482	7,453	32,935	
Due From Other Funds		203	203	
Construction Accounts:				
Cash and Cash Equivalents	7,764	213	7,977	
Investments	99,654	773	100,427	
Receivables-Accrued Interest	4		4	
Due from:				
Other Funds	961	17	978	
Other Governmental Agencies, Net	44		44	
Other Restricted Assets:				
Cash and Cash Equivalents	2,602		2,602	
Investments	33,010		33,010	
Receivables-Accrued Interest	1		1	
Due From Other Funds	2,254		2,254	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	21	479	500	
Investments	178	11,035	11,213	
Receivables-Accrued Interest	1		1	
Due From Other Funds	120		120	
Total Restricted Assets	178,958	21,096	200,054	
Total Current Assets	202,942	42,122	245,064	118,993
Noncurrent Assets:				
Capital Assets:				
Land	5,323	9,018	14,341	
Buildings	195,802	24,566	220,368	178
Improvements	225,281	10,140	235,421	530
Machinery and Equipment	13,304	26,612	39,916	165,879
Construction in Progress	226,186	1,012	227,198	
Total Capital Assets	665,896	71,348	737,244	166,587
Less: Accumulated Depreciation	180,247	16,774	197,021	101,149
Net Capital Assets	485,649	54,574	540,223	65,438
Unamortized Bond Issuance Costs	8,539	470	9,009	
Total Noncurrent Assets	494,188	55,044	549,232	65,438
Total Assets	$ 697,130	$ 97,166	$ 794,296	$ 184,431

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2009
(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	$ 468	$ 1,414	$ 1,882	$ 4,821
Accounts Payable-Other	5,207	2,380	7,587	3,054
Claims Payable				51,042
Accrued Payroll	1,018	1,114	2,132	1,617
Current Portion of Accrued Leave Payable	373	359	732	468
Unearned Revenue	989		989	
Current Portion of Lease Purchase		5,453	5,453	224
Current Portion of Accrued Landfill Postclosure Costs		176	176	
Accrued Interest		15	15	
Due to Other Funds	417	3,142	3,559	148
Total Payable from Current Unrestricted Assets	8,472	14,053	22,525	61,374
Payable from Restricted Assets:				
Vouchers Payable	10,487	37	10,524	
Accrued Bond Interest	4,753	177	4,930	
Current Portion of Bonds and Certificates	15,855	825	16,680	
Due to Other Funds	2,427	770	3,197	
Current Portion of Unamortized Premium/(Discount)	975	39	1,014	
Current Portion of Deferred Amount on Refunding	(546)	(178)	(724)	
Other Payables	7	2	9	
Total Payable from Restricted Assets	33,958	1,672	35,630	
Total Current Liabilities	42,430	15,725	58,155	61,374
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	344,525		344,525	
General Obligation Bonds and Certificates (Net of Current Portion)		20,370	20,370	
Unamortized Premium/(Discount) (Net of Current Portion)	8,950	221	9,171	
Deferred Amount on Refunding (Net of Current Portion)	(1,612)	(1,870)	(3,482)	
Accrued Leave Payable (Net of Current Portion)	1,865	1,793	3,658	2,336
Lease Purchase (Net of Current Portion)		19,211	19,211	402
Net OPEB Obligation	3,858	4,652	8,510	4,893
Pollution Remediation Liability	700		700	
Due to Other Governmental Agencies				711
Accrued Landfill Postclosure Costs (Net of Current Portion)		2,177	2,177	
Total Noncurrent Liabilities	358,286	46,554	404,840	8,342
Total Liabilities	400,716	62,279	462,995	69,716
Net Assets:				
Invested In Capital Assets, Net of Related Debt	233,459	27,220	260,679	64,812
Restricted:				
Debt Service	24,801	8,190	32,991	
Capital Projects	32,568	540	33,108	
Unrestricted	5,586	(1,063)	4,523	49,903
Total Net Assets	$ 296,414	$ 34,887	$ 331,301	$ 114,715
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			($1,547)	
Net assets of business-type activities.			$ 329,754	

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, 2009
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 60,639	$ 90,400	$ 151,039	$ 214,458
Total Operating Revenues	60,639	90,400	151,039	214,458
Operating Expenses:				
Personal Services	28,038	33,638	61,676	41,763
Contractual Services	16,650	23,592	40,242	35,012
Commodities	2,193	17,198	19,391	8,615
Materials				17,163
Claims				92,406
Other	6,600	18,222	24,822	13,944
Depreciation	10,368	2,867	13,235	16,827
Total Operating Expenses	63,849	95,517	159,366	225,730
Operating (Loss)	(3,210)	(5,117)	(8,327)	(11,272)
Nonoperating Revenues (Expenses)				
Investment Earnings	4,130	639	4,769	1,790
Other Nonoperating Revenue	16,653	464	17,117	1,596
Gain on Sale of Capital Assets	12	12,692	12,704	2,285
Interest and Debt Expense	(15,174)	(1,805)	(16,979)	(14)
Other Nonoperating Expense	(1,691)	(156)	(1,847)	
Total Nonoperating Revenues (Expenses)	3,930	11,834	15,764	5,657
Change in Net Assets Before Contributions and Transfers	720	6,717	7,437	(5,615)
Capital Contributions	15,575		15,575	
Asset Contribution to Governmental Activities		(8,158)	(8,158)	
Transfers In (Out):				
Transfers In		1,329	1,329	7,943
Transfers Out	(270)	(1,557)	(1,827)	(3,443)
Total Transfers In (Out)	(270)	(228)	(498)	4,500
Change In Net Assets	16,025	(1,669)	14,356	(1,115)
Net Assets - October 1	280,389	36,556		115,830
Net Assets - September 30	$ 296,414	$ 34,887		$ 114,715
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(921)	
Change in Net Assets of Business-Type Activities.			$ 13,435	

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

Amounts are expressed in thousands

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2009
(In Thousands)

	Business-Type Activities Enterprise Funds: Airport System	Business-Type Activities Enterprise Funds: Nonmajor Enterprise Funds	Business-Type Activities Enterprise Funds: Totals	Governmental Activities: Internal Service Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 59,453	$ 90,478	$ 149,931	$ 214,653
Cash Payments to Suppliers for Goods and Services	(25,434)	(57,875)	(83,309)	(167,204)
Cash Payments to Employees for Service	(25,475)	(30,830)	(56,305)	(38,513)
Cash Received from Other Nonoperating Revenues	16,653	464	17,117	1,596
Net Cash Provided by Operating Activities	25,197	2,237	27,434	10,532
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds		1,329	1,329	7,943
Transfers Out to Other Funds	(270)	(1,557)	(1,827)	(3,443)
Due to Other Funds	(7,184)	(10,690)	(17,874)	(1,657)
Due from Other Funds	6,328	11,089	17,417	3,867
Net Cash Provided by (Used for) Non-Capital Financing Activities	(1,126)	171	(955)	6,710
Cash Flows from Capital and Related Financing Activities:				
Acquisitions and Construction of Capital Assets	(101,191)	(14,272)	(115,463)	(28,629)
Proceeds from Issuance of Long-Term Debt		20,508	20,508	
Principal Payments on Long-Term Debt	(13,200)	(5,679)	(18,879)	(204)
Interest Paid on Long-Term Debt	(15,340)	(1,814)	(17,154)	(14)
Debt Issuance Costs				
Defeasance of Revenue Bonds		(22,115)	(22,115)	
Cost of Defeasance		(1,597)	(1,597)	
Principal Payments on Notes				
Proceeds from Sale of Assets	16	6,381	6,397	3,709
Net Cash (Used for) Capital and Related Financing Activities	(129,715)	(18,588)	(148,303)	(25,138)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(262,077)	(32,583)	(294,660)	(147,778)
Maturity of Investment Securities	359,694	45,049	404,743	156,101
Investments Earnings	6,187	884	7,071	2,694
Net Cash Provided by Investing Activities	103,804	13,350	117,154	11,017
Net Increase (Decrease) in Cash and Cash Equivalents	(1,840)	(2,830)	(4,670)	3,121
Cash and Cash Equivalents, October 1	20,364	4,552	24,916	4,869
Cash and Cash Equivalents, September 30	$ 18,524	$ 1,722	$ 20,246	$ 7,990

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

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2009
(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 (Loss)	$ (3,210)	$ (5,117)	$ (8,327)	$ (11,272)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	10,368	2,867	13,235	16,827
Other Nonoperating Revenues	16,653	464	17,117	1,596
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	140	(57)	83	186
(Increase) Decrease in Accrued Revenues	(1,179)	135	(1,044)	(8)
Decrease in Due from Other Governmental Agencies				40
Decrease in Materials and Supplies	38	137	175	229
(Increase) in Prepaid Expenses				(75)
Increase (Decrease) in Vouchers Payable	(106)	300	194	107
(Decrease) in Claims Payable				(225)
Increase (Decrease) in Accounts Payable - Other	(623)	383	(240)	(100)
Increase in Accrued Payroll	147	62	209	223
Increase in Accrued Leave Payable	104	153	257	230
Increase in Landfill Postclosure Liability		317	317	
Increase in Net OPEB Obligation	2,312	2,593	4,905	2,797
Increase in Pollution Remediation Liability	700		700	
(Decrease) in Unearned Revenue	(147)		(147)	(23)
Net Cash Provided by Operating Activities	$ 25,197	$ 2,237	$ 27,434	$ 10,532
Noncash Investing, Capital and Financing Activities				
Acquisitions and Construction of Capital Assets from Debt Proceeds	$ -	$ 3,784	$ 3,784	$ 526
Release of Asset to Governmental Activities		8,158	8,158	
Proceeds from the Sale of Capital Assets		(8,158)	(8,158)	

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, 2009
(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	$ 82,420	$ 24	$ 2,153
Security Lending Collateral	126,845		
Investments	1,857,546		8,350
Receivables:			
Accounts	2,463		321
Accrued Interest	5,538		1
Accrued Revenue	3,070		
Total Current Assets	2,077,882	24	10,825
Capital Assets			
Machinery and Equipment	126		
Buildings	767		
Total Capital Assets	893		
Less: Accumulated Depreciation	404		
Net Capital Assets	489		
Total Assets	$ 2,078,371	$ 24	$ 10,825
Liabilities:			
Vouchers Payable	$ 2,977	$ -	$ 45
Accounts Payable - Other	5,452		10,244
Accrued Payroll	156		
Due to Other Funds			536
Securities Lending Obligation	128,864		
Total Liabilities	137,449		$ 10,825
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 1,940,922	$ 24	

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, 2009
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 83,904	$ -
Employee	37,845	
Total Contributions	121,749	
Investment Earnings/(Loss):		
Net (Decrease) in Fair Value of Investments	(168,651)	
Real Estate Income, Net	1,575	
Interest and Dividends	45,609	2
Securities Lending	1,167	
Other Income	754	
Total Investment Earnings/(Loss)	(119,546)	2
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(9,130)	
Securities Lending Expenses:		
Borrower Rebates	15	
Lending Fees	(296)	
Net Investment Earnings/(Loss)	(128,957)	2
Total Additions	(7,208)	2
Deductions:		
Benefits	109,110	
Refunds of Contributions	292	
Administrative Expense	2,462	
Salaries, Wage and Employee Benefits	692	
Total Deductions	112,556	
Change in Net Assets	(119,764)	2
Net Assets - October 1	2,060,686	22
Net Assets - September 30	$ 1,940,922	$ 24

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2009
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 271,990	$ 37,819	$ 19,553	$ 329,362
Cash Collateral from Securities Lending	209,881			209,881
Investments	46,779	160,615	444	207,838
Receivables, Net:				
Notes			10,293	10,293
Accounts	206,254	44,142	6,777	257,173
Accrued Interest	23,340	1,451	68	24,859
Materials and Supplies, at Cost	159,603	5,608	176	165,387
Due from Other Governmental Agencies			8,928	8,928
Prepaid Expenses	112,873	1,972	34,234	149,079
Other Assets			1,303	1,303
Total Unrestricted Assets	1,030,720	251,607	81,776	1,364,103
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	1,088	4	14,907	15,999
Investments		34,239	11,074	45,313
Receivables - Accrued Interest			97	97
Capital Projects Accounts:				
Cash and Cash Equivalents	49,055	16,031		65,086
Investments		178,691		178,691
Receivables - Accrued Interest	218			218
Ordinance Accounts:				
Investments	347,537			347,537
Receivables - Accrued Interest	1,701			1,701
Other Restricted Accounts:				
Cash and Cash Equivalents	19,412	1,532	4,086	25,030
Investments	308,483	49,988		358,471
Deferred Charges			5,977	5,977
Receivables			23,513	23,513
Receivables - Accrued Interest	2,010			2,010
Prepaid Expenses			593,407	593,407
Total Restricted Assets	729,504	280,485	653,061	1,663,050
Total Current Assets	1,760,224	532,092	734,837	3,027,153
Noncurrent Assets:				
Capital Assets:				
Land	99,122	182,628	39,660	321,410
Infrastructure			57,058	57,058
Buildings			226,884	226,884
Utility Plant in Service	8,400,606	3,338,506		11,739,112
Machinery and Equipment		143,802	7,569	151,371
Construction in Progress	1,346,182	372,607	29,285	1,748,074
Other Intangible Assets		365		365
Nuclear Fuel	574,707			574,707
Total Capital Assets	10,420,617	4,037,908	360,456	14,818,981
Less: Accumulated Depreciation	4,010,768	1,070,718	83,971	5,165,457
Assets Held for Resale			1,265	1,265
Net Capital Assets	6,409,849	2,967,190	277,750	9,654,789
Prepaid Rent Long Term-Leaseback	437,023			437,023
Net OPEB Asset	32,915			32,915
Other Noncurrent Assets	36,410			36,410
Unamortized Bond Issuance Costs		17,937		17,937
Total Noncurrent Assets	6,916,197	2,985,127	277,750	10,179,074
Total Assets	$ 8,676,421	$ 3,517,219	$ 1,012,587	$ 13,206,227

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2009
(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	$ 407,848	$ 46,741	$ 28,009	$ 482,598
Unearned Revenue			2,840	2,840
Securities Lending Obligation	209,881			209,881
Due to Other Governmental Agencies			2,352	2,352
Current Portion of Long-term Lease/Notes Payable			23,725	23,725
Current Portion of Net OPEB Obligation		5,972		5,972
Current Portion of Other Payables		4,264	8,253	12,517
Total Payable from Current Unrestricted Assets	617,729	56,977	65,179	739,885
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest		8,453		8,453
Current Portion of Bonds and Certificates	148,705	31,035		179,740
Current Portion of Commercial Paper		2,465		2,465
Other Payables		34,005		34,005
Total Payable from Restricted Assets	148,705	75,958		224,663
Total Current Liabilities	766,434	132,935	65,179	964,548
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	3,844,121	1,396,490		5,240,611
Commercial Paper (Net of Current Portion)		258,650		258,650
Unamortized Premium/(Discount) on New Series Bonds		5,354		5,354
Deferred Amount on Refunding		(24,697)		(24,697)
Long-Term Lease/Notes Payable (Net of Current Portion)	498,212		724,958	1,223,170
Net OPEB Obligation (Net of Current Portion)		20,574		20,574
Other Payables (Net of Current Portion)	456,103	2,064	8,690	466,857
Total Noncurrent Liabilities	4,798,436	1,658,435	733,648	7,190,519
Total Liabilities	5,564,870	1,791,370	798,827	8,155,067
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,469,539	1,466,651	182,412	4,118,602
Restricted for:				
Renewal and Replacement	351,303		1,031	352,334
Debt Service	1,089	25,790	1,031	27,910
Capital Projects		11,222	3,112	14,334
Unrestricted	289,620	222,186	26,174	537,980
Total Net Assets	$ 3,111,551	$ 1,725,849	$ 213,760	$ 5,051,160

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

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2009
(In Thousands)

			PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
CPS Energy	$ 2,141,999	$ 2,244,106	$ -	$ 30,218
San Antonio Water System	369,330	377,909		132,959
Nonmajor Component Units	136,174	134,073	3,089	4,481
Total	$ 2,647,503	$ 2,756,088	$ 3,089	$ 167,658

General Revenues:
Investment Earnings (Loss)
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, 2009
(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
$ 132,325	$ -	$ -	$ 132,325
	141,538		141,538
		5,469	5,469
132,325	141,538	5,469	279,332
(20,757)	14,382	1,397	(4,978)
		2,476	2,476
(29,726)			(29,726)
(50,483)	14,382	3,873	(32,228)
81,842	155,920	9,342	247,104
3,029,709	1,569,929	204,418	4,804,056
$ 3,111,551	$ 1,725,849	$ 213,760	$ 5,051,160

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

Comprehensive Annual Financial Report
Year-Ended September 30, 2009

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year-Ended September 30, 2009

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 are 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 were 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, 2009, 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 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 839966,
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

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: Barbara Ankamah
Telephone No. (210) 207-8080

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 $1 during fiscal year 2009 that were paid with CDBG funding.

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 members of the City Council 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 members of the City Council 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
P.O. Box 15915
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 of 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 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.

HemisFair Park Area Redevelopment Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Lori Houston
Telephone No. (210) 207-2129

The HemisFair Park Area Redevelopment Corporation (HPARC) was established in fiscal year 2009 in accordance with state laws for the purposes of, and to act on behalf of the City in, assisting with acquiring property, planning, developing, constructing, managing and financing projects within HemisFair Park and its surrounding area in order to promote economic development, employment, and to stimulate business, housing, tourism, and commercial activity within the City. The HPARC is governed by eleven members approved by City Council. As HPARC was created in August 2009 and had no financial activity through September 30, an audit is not deemed necessary for fiscal year 2009.

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. It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

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Note 1 Summary of Significant Accounting Policies (Continued)

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.

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: Shannon R. Albert
Telephone No. (210) 353-2940

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:
Jane Pauley-Flores
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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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.

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. These 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. SADA receives a majority of its operating funds from the sale of land owned by the entity. Daily operations are staffed by City personnel and housed in City facilities. SADA is governed by a seven-member board of commissioners appointed by the City Council.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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. 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.

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.
P.O. Box 15915
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit entity 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.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Local Development Company Inc. dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact: Jim M. Weaver
Telephone No. (210) 207-3936

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.

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 west side 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, comprised 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Basic Financial Statements - GASB Statement No. 34 (Continued)

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.

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, proprietary, and fiduciary. 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 and 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 expenditures/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 enterprise 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, HOME Investment Partnership Grants, and the American Recovery and Reinvestment Act.

The following is a brief description of the major enterprise 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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 enterprise funds and trust funds).

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, Debt Service Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, American Recovery and Reinvestment Act, and most Community Services Funds), and San Jose Burial Fund.

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 Fund includes 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 the Private Purpose Trust Fund 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.

Note 1 Summary of Significant Accounting Policies (Continued)

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.

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues in 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, 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 deferred 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, accrued leave, debt service expenditures, claims and judgments, arbitrage rebates, postemployment obligations, and pollution remediation 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Special reporting treatments are applied to governmental fund materials and supplies, prepaid expenditures, and deposits 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, Private Purpose Trust, and Health 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 accrued leave, 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.

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 personal 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, private purpose trust and Health 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 2009 were recorded net of expenses.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the most recent cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will reflect the effects of inflation and an additional year of plant usage.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, guidance under FAS 71, *Accounting for the Effects of Certain Types of Regulation*, has been followed. Under this guidance, the zero fund net assets approach to accounting for the Decommissioning Trusts has been retained. In accordance with FAS 71, the cumulative effect of activity in the Trusts has been recorded as a regulatory liability reported on the balance sheet as net costs refundable through future rates since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as net costs recoverable through future rates. This amount would be receivable from customers.

Current-year activity in the Decommissioning Trusts has been reported in the nonoperating income (expense) section of the Statement of Revenues, Expenses and Changes in Fund Net Assets as net costs recoverable (refundable) through future rates. There was no impact to fund net assets as a result of this change in accounting method.

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 2009, the City implemented the following GASB Statements:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* establishes accounting and financial reporting standards for pollution, including contamination, and remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities (e.g. 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. Disclosure requirements are presented in Note 12 – Pollution Remediation Obligation.

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. This Statement did not impact the City's financial statements.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. This Statement did not impact the City's financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations (Continued)

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles: 1) related party transactions; 2) going concern considerations; and 3) subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This Statement did not impact the City's financial statements.

Future GASB Statement Implementations

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. The City will implement this Statement in fiscal year 2010.

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 financial statements since the City does not invest in or use derivative instruments, but will impact certain of the City's component units. The City will implement this Statement in fiscal year 2010.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2010. The City will implement this Statement in fiscal year 2011.

GASB Statement No. 57, *OPEB Measurements by Agent Employees and Agent Multiple-Employer Plans*, is intended to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agency multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements for this Statement are effective for fiscal periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, is intended to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United Statements Bankruptcy Code. It is the determination of the City that implementation of GASB Statement No. 58 will not impact the City's financial statements since the City is not anticipating needing to file for Chapter 9 proceedings. The City will implement this Statement in fiscal year 2010.

The City has not fully determined the effects that implementation of Statements No. 51, No. 53, No. 54, and No. 57 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, 2009, 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 governmental-type infrastructure assets are reported in the Statement of Net Assets, 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 3.4% for fiscal year 2009.

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Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

The estimated useful lives of capital assets were as follows:

	2009
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 $5. 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	25-50 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	3-10 years
Computer equipment	5 years
Software	3-10 years

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Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

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.

Accrued Leave

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 leave liabilities 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 funds.

CPS Energy

Employees earn vacation benefits based upon their employment status and years of service.

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 and required pension contributions 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, workers' compensation, unemployment compensation, 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.

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Note 1 Summary of Significant Accounting Policies (Continued)

Insurance (Continued)

The City also provides employee health insurance, which includes 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, 2009, 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.

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 13, 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 are 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, investment earnings, 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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.

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.

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.

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 2009, general government expenditures were reduced by $10,967, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $7,170 and $3,797, 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 and discounts are amortized over the life of the debt. Debt refundings (net carrying value of the debt net of any unamortized costs of the old debt) 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.

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 user 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 is 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 Employee Benefits 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 $2,112 for budgeted carryforwards, $41 for special projects, $79,746 for reserve for revenue loss, $8,097 for Public, Educational and Government Access Funding (PEG) revenues, and $103 for the Streets Endowment Funds.
- 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, the endowment for the San Antonio Public Library Foundation, and the endowment for the Boza Becica Fund.

Special Items

On November 25, 2008, the City engaged in a real estate transaction that sold the Riverbend Parking Garage in exchange for property valued at $8,158 and cash proceeds of $6,900, less related closing fees. This resulted in a gain on the sale in the amount of $12,686, of which $8,158 was subsequently contributed to governmental activities from the City's business-type activities, resulting in $4,528 of Special Items.

Note 1 Summary of Significant Accounting Policies (Continued)

Reclassifications

In fiscal year 2009, the following self-insurance fund operations were combined into the Employee Benefits Fund: Employee Wellness, Unemployment Compensation, Extended Sick Leave, and Retiree Health Benefits. In the case of Employee Wellness, the majority of fiscal year 2009 operations were folded into the Employee Benefits Fund. In fiscal year 2010, remaining net assets of the Employee Wellness Fund will be fully transferred over to the Employee Benefits Fund.

The Special Revenue Funds have two reclassifications in fiscal year 2009. The Tax Increment Reinvestment Zone, which was previously presented within the Community Service Funds, is now presented as a separate column within the Nonmajor Governmental Funds – Other Special Revenues so as to more easily view the progress of the existing and future TIRZ. The Golf Course Fund, which was previously presented within the Nonmajor Governmental Funds – Other Special Revenues, is now presented within the Community Service Funds, as all courses have been handed over to MGA-SA as of fiscal year 2009 and this fund is not anticipated being used for operational needs going forward.

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 deferred 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, 2009, was $0.5671 per $100 taxable valuation, which means that the City has a tax margin of $1.9329 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,402,148 per year based on the net taxable valuation of $72,541,142 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, 2009, there are 24 existing TIRZ with a total taxable captured value of $1,189,488. For fiscal year 2009, this total taxable captured value produced $6,448 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 2010 through fiscal year 2032. It is estimated that the City will contribute approximately $500,463 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, 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, Verano Projects, Westside, Midtown, and Mission Drive-In.

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	$ 28,557	$ 70,048	$ 12,372	$ 271,990	$ 37,819
Security Lending Collateral		118,907	7,938	209,881	
Investments	379,452	1,701,771	155,775	46,779	160,615
Total Unrestricted	408,009	1,890,726	176,085	528,650	198,434
Restricted:					
Cash and Cash Equivalents	95,049			69,555	17,567
Investments	770,985			656,020	262,918
Total Restricted	866,034			725,575	280,485
Total Cash and Cash Equivalents and Investments	$ 1,274,043	$ 1,890,726	$ 176,085	$ 1,254,225	$ 478,919

[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 $2,177 and Investments of $8,350. 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, 2009.

[4] For the fiscal year ended December 31, 2008.

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	$ 27,909	$ 143	$ 12	$ (270)	$ 23,811
Investments with Original Maturities of Less than Ninety Days	94,991	69,905	12,360	341,713	31,545
Cash with Pension/Retiree Health Care Fiscal Agents					
Cash with Other Financial Agents	465				
Petty Cash Funds	126			102	
Cash on Hand	115				30
Total Cash and Cash Equivalents	$ 123,606	$ 70,048	$ 12,372	$ 341,545	$ 55,386

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	$ 1,239,903	$ 132,219	$ 12,360	$ 866,312	$ 455,078
Repurchase Agreements	3,698				
Fixed Income Securities [1]	548				
Equity Securities [1]	1,279				
Corporate Bonds		410,291		53,662	
Foreign Bonds				3,946	
Preferred Stock					
Common Stock		719,342	27,537	120,592	
Real Estate		127,168	25,158		
Hedge Funds		226,892	41,448		
International Equities			13,245		
Swaps Liabilities					
Alternative Investment		155,764	48,387		
Total Investments	1,245,428	1,771,676	168,135	1,044,512	455,078
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(94,991)	(69,905)	(12,360)	(341,713)	(31,545)
Total	$ 1,150,437	$ 1,701,771	$ 155,775	$ 702,799	$ 423,533

[1] These investments are reported under a blended component unit (San Antonio 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 U.S. government 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 and its agencies 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 the Texas Public Funds Investment Act, as amended, and its own Investment Policy. 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, 2009.

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 $365 for the year-ended September 30, 2009. 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	$ 895,472	$ 895,781	71.9%	AAA/A-1+	.44 years
U.S. Treasuries	249,075	249,131	20.0%	N/A	.46 years
Money Market Mutual Fund	94,991	94,991	7.5%	AAAm	1 day
Fixed Income Securities [4]	548	548	0.1%		
Equity Securities [4]	1,279	1,279	0.1%		
Repurchase Agreement	3,698	3,698	0.4%	N/A	1 day
Total City Investments	$ 1,245,063	$ 1,245,428	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 $22,721.

[2] The allocation is based on fair value.

[3] Standard & Poors.

[4] These investments are reported under a blended component unit (San Antonio 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.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

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 and its agencies or securities held in book entry form by the Federal Reserve Bank in the City's name.

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 U.S. government 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, 2009, 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, and Federal Agricultural Mortgage Corporation, 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 greater than 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, 2009, the U.S. government agency's 71.9% securities allocation was as follows: Federal National Mortgage Association 25.5%, Federal Home Loan Mortgage Corporation 24.4%, Federal Home Loan Bank 18.4%, and Federal Agricultural Mortgage Corporation 3.6%.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

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 $1,890,726. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2009, 33% of the Pension Fund's bonds were rated "AAA", 3% were rated "AA", 8% were rated "A", 15% were rated "BBB", 12% were rated "BB", 17% were rated "B", 4% were rated "CCC", 1% were rated "D" and 7% were unrated or not rated.

Custodial Credit Risk - 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, 2009, the Pension Fund had cash deposits held by investment managers in the amount of $143 that were uninsured and uncollateralized.

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, 2009 amount to $472,621 and have a weighted-average maturity (WAM) of 8.51 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	$ 82,174	12.00
Government Agencies	9,669	7.61
Government Bonds	47,901	14.03
Asset Backed Securities	4,971	25.49
Municipal/Provincial Bonds	112,827	3.98
Corporate Convertible Bonds	4,729	5.88
Government Mortgage Backed Securities	73	15.26
Non-Government Backed C.M.O.s	20,229	26.94
Commerical Mortgage-Backed	568	22.89
Bank Loans	4,954	3.86
Golden Tree*	51,611	5.89
Ashmore*	29,369	12.87
Ashmore LFC*	34,369	1.37
Wellington Emerging Market Debt*	69,177	5.48
Total Interest Rate Sensitive Securities	$ 472,621	

*Wellington Asset Management, Ashmore and Ashmore LCF are commingled funds invested in emerging market debt and report their weighted average maturities (WAM) for the portfolio. GoldenTree is a commingled fund invested in high-yield corporate bonds, and they also report their WAM for the portfolio.

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, 2009 amounted to $297,547 in equities, $157,142 in bonds and $21,308 in cash. Detailed as follows:

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ 15	$ 2,200	$ -	$ 2,215
Australian Dollar	14,703	11,259	(3,543)	22,419
Bermuda Dollar	75			75
Brazilian Real	13,168	19,778		32,946
Canadian Dollar	8,835	3,033	950	12,818
Swiss Franc	15,047		194	15,241
Chinese Renminbi	11,503			11,503
Chilean Peso	919	(28)		891
Colombian Peso	64	6,169		6,233
Czech Republic Krona	911	2,653		3,564
Danish Krone	2,528		46	2,574
Egyptian Pound	64			64
European Union	72,812	712	(194)	73,330
British Pound	37,968	5,568	10,196	53,732
Hong Kong Dollar	7,956		157	8,113
Hungarian Forint	1,096	2,218		3,314
Indonesian Rupiah	1,566	6,388		7,954
Israeli New Shekel	1,998	1,750		3,748
Indian Rupee	3,050	1,578		4,628
Japanese Yen	40,037		1	40,038
South Korean Won	15,907	2,839	4,559	23,305
Lithuanian Litas		2,041		2,041
Mexican Peso	5,871	13,985		19,856
Malaysian Ringgit	1,474	6,323		7,797
Norwegian Krone	2,723		3,129	5,852
New Zealand Dollar	42	4,545	(1,200)	3,387
Nigerian Naira		969		969
Pakistani Rupe	420	187		607
Panamanian Balboa		609		609
Peruvian Nuevo Sol	74	2,608		2,682
Philippine Peso	110	4,260		4,370
Polish Zloty	2,310	8,040		10,350
Qatari Riyal		706		706
Romanian Leu	9	1,234		1,243
Russian Ruble	2,296	12,271		14,567
Swedish Krona	3,185	2,424	3,588	9,197
Singapore Dollar	2,890	3,124	26	6,040
Thai Baht	4,674	1,509		6,183
Tuniisian Dinar		131		131
Turkey New Lira	4,277	10,055	3,399	17,731
Taiwan Dollar	13,299			13,299
Ukrainian Hyvnia		1,017		1,017
UAE Dirham		3,136		3,136
Uruguay Peso		1,473		1,473
Venezuelan Bolivar		5,472		5,472
South African Rand	3,671	4,906		8,577
	$ 297,547	$ 157,142	$ 21,308	$ 475,997

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 31 days at September 30, 2009. For the year-ended September 30, 2009, the Pension Fund has recognized an unrealized loss amounting to $2,019. The loss is due to the write down of some of the fixed income assets in the investment pool. On December 16, 2009, a cash amount of $314 is due to the custodial bank to cover a portion of the loss that has been realized. The custodial bank has reimbursed the Pension Fund for $298 of this realized loss by contributing cash to the short term investment fund and by a reduction in the fees charged to the Pension Fund.

As of September 30, 2009, the Pension Fund had lending arrangements outstanding with a total market value of $118,053, which were fully collateralized with cash and securities. Of this amount, cash collateral of $120,926 is recorded in the accompanying Statement of Fiduciary Net Assets. This amount is reduced by $2,019 to show the net value of Pension Fund's investment in the short term investment pool. Net income for the year ended September 30, 2009, under the securities lending arrangement, was $863. This includes the $298 in contribution and reduced fees received from the custodial bank.

Cash Collateral Pool

	2009
U.S. Government Bonds	$ 5,115
U.S. Commercial Paper	1,674
U.S. Asset Backed Securities	21,636
U.S. Corporate Notes	10,152
U.S. Repo Agreements	18,913
U.S. Sweep Vehicle	1,838
U.S. Agencies Bonds	5,386
U.S. Time Deposits	961
International Certificates of Deposit	37,553
International Time Deposits	13,868
International Asset Backed Securities	3,106
International Corporate Notes	724
Subtotal	120,926
Unrealized Loss	(2,019)
Total	$ 118,907

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, 2009, was approximately $20,229, 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 $226,892 as of September 30, 2009.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

As of September 30, 2009, the fund held currency forward contracts as follows:

Currency	Market Value Receivable/ (Payable)	Maturity Date
Austrialian Dollars	$ 3,333	11/9/2009
British Pound	10,005	12/4/2009
Canadian Dollars	3,172	11/4/2009
Euros	(316)	12/4/2009
New Zealand Dollar	(1,199)	11/12/2009
Norwegian Krone	2,908	10/16/2009
South Korean Won	4,558	1/7/2010
Swedish Krona	3,367	10/26/2009
Turkish Lira	1,022	11/23/2009
Turkish Lira	2,374	3/17/2009
U.S. Dollars	(2,681)	10/16/2009
U.S. Dollars	(3,111)	10/26/2009
U.S. Dollars	(3,209)	11/4/2009
U.S. Dollars	(3,542)	11/9/2009
U.S. Dollars	1,105	11/12/2009
U.S. Dollars	(960)	11/23/2009
U.S. Dollars	(9,849)	12/4/2009
U.S. Dollars	(4,273)	1/7/2010
U.S. Dollars	(2,379)	3/17/2010
Total	$ 325	

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 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 Barclays (formerly Lehman) 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:

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

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		

In May of 2009, the portable alpha plan was discontinued, so there were no contracts at September 30, 2009.

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, private real estate investment trusts, and open-ended hedge funds. These investments are subject to the terms of the respective partnerships' or other types of 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 or general partners. 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. 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.

The fair value of the Health Care Fund's cash and investments at September 30, 2009 is $168,147. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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, 2009.

The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2009. 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.

Custodial Credit Risk (Investments) - The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2009, the Health Care Fund's common stock investments are held at Frost National Bank's third-party custodian, Bank of New York Mellon. Since the common stock is maintained separately from the bank's assets, in the event of failure of the bank, the common stock held in trust would not be affected.

Credit Risk – In accordance with the Health Care Fund's Investment Policy, investments in money market mutual funds must be rated at least A-2 by Standard and Poor's. At September 30, 2009, the money market mutual fund was rated AAAm by Standard and Poor's.

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.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Care Fund's investment policy limits the maturities of money market mutual funds to two years at time of purchase. At September 30, 2009, the money market fund weighted average to maturity is 15 days.

Securities Lending – The Health Care Fund participates in a securities lending program as a means to augment income. The program is operated in accordance with a contract between the Health Care Fund and its custodian bank, Frost National Bank, and compliance with State statutes and Health Care Fund policies. Securities are lent to select 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.

At September 30, 2009, the Health Care Fund was not exposed to credit risk to borrowers because the amounts owed to borrowers exceeded the amount 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 2009.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

At September 30, 2009, there was a total of $7,709 in securities out on loan to borrowers. In exchange, the Health Care Fund received $7,938 in securities collateral invested in open-ended money market type mutual funds, or 103.0% of the market value of the corresponding securities loaned.

Subscribed Capital Commitments - As of September 30, 2009, the Fund had non-binding commitments to invest capital in fourteen 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 $51,360. As of September 30, 2009, $26,782 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. 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, 2009 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 the Federal Reserve Bank of New York in CPS Energy's name.

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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 Decommissioning Trusts. Consistent with other investments in the Decommissioning 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, 2009
Cash and cash equivalents	
Petty cash funds on hand	$ 102
Deposits with financial institutions	
Unrestricted CPS Energy deposits	(713)
Restricted CPS Energy deposits	
Debt service	129
Project Warm	314
Investments with original maturities of less than 90 days	
CPS Energy unrestricted (current)	272,601
CPS Energy restricted (noncurrent)	58,036
Decommissioning Trusts - restricted (noncurrent)	11,076
Total cash and cash equivalents	341,545
CPS Energy - securities lending cash collateral	209,881
Total cash, cash equivalents and securities lending cash collateral	$ 551,426

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 fiscal year. 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, 2009
Cash and cash equivalents	
CPS Energy unrestricted and restricted	$ 330,469
Decommissioning Trusts - restricted	11,076
Total cash and cash equivalents	341,545
Gross investments - current and noncurrent	
CPS Energy unrestricted and restricted	724,953
Decommissioning Trusts - restricted	319,559
Total gross investments	1,044,512
Investments with original maturities of less than 90 days also included in cash equivalents	
CPS Energy unrestricted and restricted	(330,637)
Decommissioning Trusts - restricted	(11,076)
Total investments also included in cash equivalents	(341,713)
Net current and noncurrent investments	702,799
Total cash, cash equivalents and investments	$ 1,044,344

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	✓	✓

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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, 2009
Unrestricted	
Cash and cash equivalents	$ 271,990
Investments	46,779
Total Unrestricted (current)	318,769
Restricted	
Debt service	
Cash and cash equivalents	1,088
Total Debt Service	1,088
Capital projects	
Cash and cash equivalents	49,055
Total Capital Projects	49,055
Ordinance	
Investments	347,537
Total Ordinance	347,537
Other	
Project Warm	
Cash and cash equivalents	8,336
Total Project Warm	8,336
Decommissioning Trusts	
Cash and cash equivalents	11,076
Investments	308,483
Total Decommissioning Trusts	319,559
Total Other	327,895
Total Restricted	
Cash and cash equivalents	69,555
Investments	656,020
Total Restricted (noncurrent)	725,575
Total cash, cash equivalents and investments (unrestricted and restricted)	$ 1,044,344

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.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

While composed of several different investment types, the CPS Energy direct investments portfolio contains federal agency (or government-sponsored entities ("GSEs")) debt securities. Two of the GSEs, the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), have been greatly affected by the nationwide mortgage lending crisis. It had been speculated that these two corporations could become financially unstable and be unable to pay all of their obligations. In order to prevent the negative impact that the insolvency of these two corporations would cause, the Housing and Economic Recovery Act of 2008 was passed to strengthen the regulatory oversight of Fannie Mae and Freddie Mac and to provide temporary authority for the federal government to supply liquidity and capital to the GSEs on a contingency basis. After consulting with its investment managers and financial advisors, CPS Energy's assessment was that the investment in Fannie Mae and Freddie Mac would retain their value and that CPS Energy was not at risk of losing funds invested in the two corporations. However, as a security measure, CPS Energy temporarily refrained from purchasing Fannie Mae and Freddie Mac debt securities for its direct investments while activity for these entities stabilized.

In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the Federal Housing Finance Agency, which provided stronger backing for the GSEs' debt. With the stronger backing in place, CPS Energy resumed evaluating Fannie Mae and Freddie Mac debt securities for potential investments. CPS Energy has and will continue to monitor the economy and, especially, developments related to the Fannie Mae and Freddie Mac situation.

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.

While the turmoil in the financial markets continues, with a significant impact from subprime lending, neither the CPS Energy's direct investments nor the investments in the Decommissioning Trusts have no 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.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Summary of Investments by Organizational Structure and Type

	January 31, 2009
CPS Energy investments	
U.S. Treasury, Government Agencies and money market funds	$ 724,953
Decommissioning Trusts	
U.S. Treasury, Government Agencies and money market funds	141,359
Corporate bonds	53,662
Foreign bonds	3,946
Subtotal	198,967
Common stock	120,592
Total Decommissioning Trusts	319,559
Grand total - all investments	$ 1,044,512

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.

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.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

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 federal agency to 50.0% and its investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, certificates of deposit are limited to 50.0% per issuer.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 83,537	$ 83,537	11.5%	3.7
Federal National Mortgage Assn.	40,336	40,336	5.6%	2.8
Federal Home Loan Bank	103,674	104,024	14.3%	1.4
Federal Farm Credit Bank	25,097	25,097	3.4%	2.8
Certificates of Deposit	125,000	125,000	17.2%	0.3
Money Market Mutual Funds	347,309	347,309	48.0%	
Total Fixed-Income Investments	724,953	725,303	100.0%	1.8
Cash Collateral - Securities Lending	209,881	209,881		
Total Fixed-Income Portfolio	$ 934,834	$ 935,184		

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, 2009, CPS Energy held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 809,834	$ 810,184	86.6%
Certicates of Deposits (not rated)	125,000	125,000	13.4%
Total Fixed-Income Investments	$ 934,834	$ 935,184	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, 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.

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.

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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. 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. 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 Barclays Capital Aggregate Index, which is 3.7 for 2008.

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, 2008, total nongovernment-sponsored (corporate and foreign) issuers amounted to 38.2% of the 28% Decommissioning Trust and 16.0% of the 12% 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	$ 9,738	7.3%	3.6	$ 1,663	4.2%	7.2
U.S. Agencies:						
Federal National Mortgage Assn.	33,999	25.3%	2.8	10,749	27.2%	2.9
Federal Home Loan Mortgage Corp.	21,949	16.3%	3.1	6,606	16.7%	3.4
Small Business Administration	4,745	3.5%	6.0			
Government National Mortgage Assn.				2,901	7.3%	7.3
Municipal Bonds - Texas	151	0.1%	1.5	2,656	6.7%	11.1
Municipal Bonds - Other States	3,561	2.7%	9.5	6,468	16.4%	4.4
Corporate Bonds	47,487	35.4%	6.1	6,175	15.6%	5.6
Foreign Bonds	3,813	2.8%	8.7	133	0.3%	9.7
AIM Money Market	8,872	6.6%	0.0	2,204	5.6%	
Total Fixed-income Investments	$ 134,315	100.0%	4.7	$ 39,555	100.0%	4.8
Cash Collateral - Securities Lending	21,158			3,939		
Total Portfolio	$ 155,473			$ 43,494		

Credit Risk – In accordance with the investment policy, 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. If a security's rating falls below the minimum investment grade rating of BBB- after it has been purchased, the investment policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5.0% of the total fixed-income portfolio.

- 69 - Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by credit rating:

	28.0% Interest		12.0% Interest	
Credit Rating	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	$ 9,738	6.3%	$ 1,663	3.8%
AAA	102,105	65.7%	32,447	74.6%
Aaa	311	0.2%		
AA+	106	0.1%	289	0.7%
Aa2	105	0.1%		
AA	3,993	2.5%	3,469	8.0%
AA-	203	0.1%		
A+	6,041	3.9%	434	1.0%
A	7,497	4.8%	2,379	5.5%
A-	7,222	4.6%	766	1.7%
A3	161	0.1%		
BBB+	8,653	5.6%	1,211	2.8%
BBB	4,284	2.8%	836	1.9%
BBB-	4,022	2.6%		
BB	167	0.1%		
B	47	0.0%		
Not rated	818	0.5%		
Total Fixed-income Portfolio	$ 155,473	100.0%	$ 43,494	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 $3,900 as of December 31, 2008.

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.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

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, 2008, 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, 2008, the bank balance of demand and savings account was $26,318, and the reported amount was $23,841 which included $30 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 Wells Fargo Bank and are invested in U.S. Treasury Obligations. As of December 31, 2008, 98.0% of SAWS' investment portfolios were classified as current assets as they had remaining maturities of less than one year.

As of December 31, 2008, SAWS had the following investments and maturities:

	Investments Maturities (in Days)					
Investment Type	**90 Days or Less**	**91 to 180**	**181 to 365**	**Greater than 365**	**Fair Value**	**Reported**
U.S. Agency Discount Notes	$ 124,339	$ 134,092	$ -	$ -	$ 258,431	$ 257,565
U.S. Agency Coupon Notes	47,165	93,813	31,442	9,666	182,086	181,483
Money Market Funds:						
U.S. Bank	5,980				5,980	5,980
Wells Fargo	10,050				10,050	10,050
	$ 187,534	$ 227,905	$ 31,442	$ 9,666	$ 456,547	$ 455,078
Percentage of Portfolio	41.1%	49.9%	6.9%	2.1%	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, 98.0% 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, 2008 SAWS held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2008				
AAA	$ 455,078	$ 456,547	100.0%	Max. = 100.0%
Total Portfolio	$ 455,078	$ 456,547	100.0%	

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

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, 2008, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 43.0% in Federal Home Loan Bank, 29.0% in Federal National Mortgage Association, and 21.0% in Federal Home Loan Mortgage Corporation.

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 2008:

		December 31, 2008
Reported amounts in note for:		
Deposits	$	23,841
Investments		455,078
Total Deposits and Investments	$	478,919
Totals for Balance Sheets:		
Cash and Cash Equivalents:		
Unrestricted cash and cash equivalents	$	37,819
Restricted cash and cash equivalents:		
Debt Service Fund		4
Reserve Fund		1,532
Capital Projects Accounts		16,031
Total Cash and Cash Equivalents	$	55,386
Investments:		
Unrestricted current investments	$	160,615
Restricted current investments:		
Debt Service Accounts		34,239
Other Restricted Accounts:		
Operating reserve		32,257
Customers' deposits		8,041
Construction funds		25,964
Total Other Restricted Accounts		100,501
Total Current Investments	$	261,116
Restricted noncurrent investments:		
Capital Projects Accounts	$	152,727
Reserve Fund		9,690
Total Cash, Cash Equivalents and Investments	$	478,919

Amounts are expressed in thousands

Note 4 Capital Assets

Primary Government (City)

In November 2003, 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 $179 were identified and reduced in capital assets for governmental activities.

Capital asset activity for governmental activities, to include Internal Service Funds, for the year-ended September 30, 2009, is as follows:

Capital Assets - Governmental Activities

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,356,141	$ 74,139	$ -	$ -	$ 1,430,280
Construction in Progress	280,414	209,555	(17,577)	(84,035)	388,357
Other Non-Depreciable Assets	500				500
Total Non-Depreciable Assets	1,637,055	283,694	(17,577)	(84,035)	1,819,137
Depreciable Assets:					
Buildings	710,885			3,426	714,311
Improvements	295,844			21,146	316,990
Infrastructure	2,291,681			57,789	2,349,470
Machinery and Equipment	344,638	34,624	(14,211)	1,674	366,725
Total Depreciable Assets	3,643,048	34,624	(14,211)	84,035	3,747,496
Accumulated Depreciation:					
Buildings	(238,182)	(18,906)			(257,088)
Improvements	(73,204)	(11,716)			(84,920)
Infrastructure	(1,439,835)	(57,609)			(1,497,444)
Machinery and Equipment	(193,303)	(25,817)	11,846		(207,274)
Total Accumulated Depreciation	(1,944,524)	(114,048)	11,846		(2,046,726)
Total Depreciable Assets, net	1,698,524	(79,424)	(2,365)	84,035	1,700,770
Total Capital Assets, net	$ 3,335,579	$ 204,270	$ (19,942)	$ -	$ 3,519,907

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 10,860
Public Safety	4,557
Public Works	65,509
Health Services	1,024
Sanitation	248
Welfare	455
Culture and Recreation	9,851
Convention and Tourism	4,545
Urban Redevelopment and Housing	60
Economic Development and Opportunity	112
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	16,827
Total Depreciation Expense for Governmental Activities	$ 114,048

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2009, Internal Service Funds capital assets increased by $29,693, and decreased by $1,962, resulting in an ending balance of $166,587. Depreciation expense of $16,827 resulted in an ending accumulated depreciation balance of $101,149, to arrive at net book value of $65,438.

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 2009, the City capitalized construction period interest for the Airport System and the Nonmajor Enterprise Funds in the amount of $4,337 and $33, respectively. Capital asset activity for business-type activities for the year-ended September 30, 2009, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 5,323				$ 5,323
Nonmajor Enterprise Funds	9,018	8,158	(8,158)		9,018
Total Land	14,341	8,158	(8,158)		14,341
Construction in Progress:					
Airport System	120,184	118,979		(12,977)	226,186
Nonmajor Enterprise Funds	1,269	1,790		(2,047)	1,012
Total Construction in Progress	121,453	120,769		(15,024)	227,198
Total Non-Depreciable Assets	135,794	128,927	(8,158)	(15,024)	241,539
Depreciable Assets:					
Buildings:					
Airport System	195,802				195,802
Nonmajor Enterprise Funds	30,362		(5,796)		24,566
Total Buildings	226,164		(5,796)		220,368
Improvements:					
Airport System	213,246			12,035	225,281
Nonmajor Enterprise Funds	8,214		(121)	2,047	10,140
Total Improvements	221,460		(121)	14,082	235,421
Machinery and Equipment:					
Airport System	11,578	976	(192)	942	13,304
Nonmajor Enterprise Funds	10,503	16,233	(124)		26,612
Total Machinery and Equipment	22,081	17,209	(316)	942	39,916
Total Depreciable Assets	469,705	17,209	(6,233)	15,024	495,705
Accumulated Depreciation:					
Buildings:					
Airport System	(68,451)	(4,719)			(73,170)
Nonmajor Enterprise Funds	(11,490)	(684)	4,018		(8,156)
Total Buildings	(79,941)	(5,403)	4,018		(81,326)
Improvements:					
Airport System	(91,776)	(5,100)			(96,876)
Nonmajor Enterprise Funds	(1,964)	(289)	51		(2,202)
Total Improvements	(93,740)	(5,389)	51		(99,078)
Machinery and Equipment:					
Airport System	(9,839)	(549)	187		(10,201)
Nonmajor Enterprise Funds	(4,646)	(1,894)	124		(6,416)
Total Machinery and Equipment	(14,485)	(2,443)	311		(16,617)
Total Accumulated Depreciation	(188,166)	(13,235)	4,380		(197,021)
Total Depreciable Assets, net	281,539	3,974	(1,853)	15,024	298,684
Total Capital Assets, net	$ 417,333	$ 132,901	$ (10,011)	$ -	$ 540,223

On November 25, 2008, the City engaged in a real estate transaction that sold the Riverbend Parking Garage in exchange for property valued at $8,158 and cash proceeds of $6,900, less related closing fees. The property acquired was subsequently contributed to governmental activities from the City's business-type activities as it will serve as the Fire and Police departments' headquarters.

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 2011. 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 the 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 2009.

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. Currently, CPS Energy holds a 50% interest in the development of Units 3 and 4. Costs associated with this development are included in construction-in-progress. See Note 10 for more information on CPS Energy's interest in STP.

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Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP Capital Investment (40.0% share), Net

		January 31, 2009
STP capital assets, net		
Construction-in-progress	$	209,481
Land		5,701
Electric and general plant		1,268,652
Nuclear fuel		70,750
Total STP capital assets, net	$	1,554,584
Total CPS Energy capital assets, net	$	6,409,849
STP capital investments as a percentage of total CPS Energy capital assets, net		24.3%

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 2009:

Capital Assets - CPS Energy

	Beginning Balance	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$63,411	$ -	$ 35,711	$ -	$ 99,122
Construction in Progress	846,682	830,855	(331,355)		1,346,182
Total Non-Depreciable Assets	910,093	830,855	(295,644)		1,445,304
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	6,864,060	29,396	221,981	(57,434)	7,058,003
Gas Plant	617,685	3,495	19,238	(475)	639,943
General Plant	649,129	10,670	54,425	(11,564)	702,660
Nuclear Fuel	538,357	36,350			574,707
Total Depreciable Capital Assets	8,669,231	79,911	295,644	(69,473)	8,975,313
Accumulated Depreciation					
Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(2,882,161)	(218,362)		65,152	(3,035,371)
Gas Plant	(218,086)	(13,733)		774	(231,045)
General Plant	(200,299)	(51,268)		11,172	(240,395)
Nuclear Fuel	(473,247)	(30,710)			(503,957)
Total Accumulated Depreciation Depletion and Amortization	(3,773,793)	(314,073)		77,098	(4,010,768)
Total Capital Assets, net	$5,805,531	$ 596,693	$ -	$ 7,625	$ 6,409,849

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

Cash flow information - Cash paid for additions, net removal costs, and nuclear fuel was $873,400. Noncash AFUDC was $43,400, for a total of $916,800. Included in Reductions/Decreases was $11,600 in removal costs. These reductions were offset by $4,000 in salvage sales. Depreciation and amortization totaled $283,400, which included $40,000 (not in thousands) related to intangible assets.

Other - The increases in electric plant also included new substations and distribution infrastructure.

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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, 2008, interest capitalized was $9,030. 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	$ 78,543	$ -	$ 1,785	$ 1,756	$ 78,572
Acquisition of Water Rights	44,794		59,262		104,056
Other Intangible Assets	296	69			365
Construction in Progress	361,192	341,507	(328,747)	1,345	372,607
Total Non-Depreciable Assets	484,825	341,576	(267,700)	3,101	555,600
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	377,979	740	36,758		415,477
Pumping and Purification	114,249	618	7,926		122,793
Distribution and Transmission System	1,316,131	936	118,756	834	1,434,989
Treatment Facilities	1,273,780	52	95,997	4,582	1,365,247
Machinery and Equipment:					
Machinery and Equipment	100,721	10,508	1,073	9,544	102,758
Furniture and Fixtures	4,932	60	56		5,048
Computer Equipment	16,847	1,676	730	844	18,409
Software	10,392	791	6,404		17,587
Total Depreciable Assets	3,215,031	15,381	267,700	15,804	3,482,308
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(82,548)	(8,353)			(90,901)
Pumping and Purification	(21,308)	(2,829)			(24,137)
Distribution and Transmission System	(350,938)	(31,153)		(758)	(381,333)
Treatment Facilities	(466,173)	(31,228)		(4,582)	(492,819)
Machinery and Equipment:					
Machinery and Equipment	(56,369)	(6,199)		(8,900)	(53,668)
Furniture and Fixtures	(3,342)	(282)			(3,624)
Computer Equipment	(13,008)	(1,702)		(800)	(13,910)
Software	(8,578)	(1,748)			(10,326)
Total Accumulated Depreciation	(1,002,264)	(83,494)		(15,040)	(1,070,718)
Total Depreciable Assets, net	2,212,767	(68,113)	267,700	764	2,411,590
Total Capital Assets, net	$ 2,697,592	$ 273,463	$ -	$ 3,865	$ 2,967,190

Amounts are expressed in thousands

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2009 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 115,704	$ 28,375	$ 5,437	$ 2,952	$ 806	$ 153,274
Business-Type Activities:						
Airport System	$ 6,040	$ -	$ -	$ 7	$ -	$ 6,047
Nonmajor Enterprise Funds	6,761				-	6,761
Total Business-Type Activities	$ 12,801	$ -	$ -	$ 7	$ -	$ 12,808

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $55,278 against customer, other governmental agencies and other receivables, and $3,401 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $739 against customer and other receivables.

The only receivables not expected to be collected within one year are $4,656 of notes and loans receivables, net of allowance for doubtful accounts, related to General Government, Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding deferred revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2009 are as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities	$ 134,905	$ 23,048	$ 157,953
Business-Type Activities:			
Airport System	$ 16,169	$ 1,018	$ 17,187
Nonmajor Enterprise Funds	3,833	1,114	4,947
Total Business-Type Activities	$ 20,002	$ 2,132	$ 22,134

Interfund Receivable and Payable Balances

As of September 30, 2009, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the $34,410 due from other funds in the General Fund, $33,728 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of $648 and $460 to the Tax Increment Reinvestment Zone and General Fund, respectively, 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, 2009:

Summary Table of Interfund Receivables and Payables
As of September 30, 2009

	Due from Other Funds	Due To Other Funds
General Fund:		
Debt Service Fund	$ -	$ 1
Categorical Grant In-Aid	27,943	515
Airport System Fund	1	
Nonmajor Governmental Fund	5,784	2,103
Nonmajor Enterprise Fund	2	
Internal Service Funds	144	794
Fiduciary Fund	536	
Total General Fund	34,410	3,413
Debt Service Fund:		
General Fund	1	
Nonmajor Governmental Fund	418	3,664
Total Debt Service Fund	419	3,664
Categorical Grant In-Aid:		
General Fund	515	27,943
Airport System Fund	186	
Nonmajor Governmental Fund	1	9
Internal Service Funds		46
Total Categorical Grant In-Aid	702	27,998
Airport System Fund:		
General Fund		1
Categorical Grant In-Aid		186
Airport System Fund	2,646	2,646
Nonmajor Governmental Fund	961	6
Internal Service Funds		5
Total Airport System Fund	3,607	2,844
Nonmajor Governmental Funds:		
General Fund	2,103	5,784
Debt Service Fund	3,664	418
Categorical Grant In-Aid	9	1
Airport System Fund	6	961
Nonmajor Governmental Fund	10,588	10,588
Nonmajor Enterprise Fund	3,071	10,293
Internal Service Funds		683
Total Nonmajor Governmental Funds	19,441	28,728
Nonmajor Enterprise Funds:		
General Fund		2
Nonmajor Governmental Fund	10,293	3,071
Nonmajor Enterprise Fund	838	838
Internal Service Funds		1
Total Nonmajor Enterprise Funds	11,131	3,912
Internal Service Funds:		
General Fund	794	144
Categorical Grant In-Aid	46	
Airport System Fund	5	
Nonmajor Governmental Fund	683	
Nonmajor Enterprise Fund	1	
Internal Service Funds	4	4
Total Internal Service Funds	1,533	148
Fiduciary Funds:		
General Fund		536
Total Fiduciary Funds		536
Total	**$ 71,243**	**$ 71,243**

Amounts are expressed in thousands

Note 5 Receivables and Payables (Continued)

CPS Energy

Disaggregation of Receivables - Net customer accounts receivable as of January 31, 2009, included $65,111 for unbilled revenue receivables and $141,143 for billed utility services. Interest and other receivables included $3,247 for regulatory-related receivables, $3,411 for interest receivables and $18,910 for other miscellaneous receivables.

Disaggregation of Payables - At January 31, 2009, accounts payable and accrued liabilities included $281,074 related to standard operating supplier and vendor payables (fuels payable, regulatory assessments of $31,300, etc); $34,527 to employee-related payables; $22,561 to the current portion of deferred lease revenue; and $69,686 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, 2008
Water Delivery	$ 13,300
Water Supply	13,011
Wastewater	15,787
Chilled Water and Steam	2,044
	$ 44,142

Included within the receivables above are unbilled revenue receivables of $18,878 at December 31, 2008.

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2009. On December 17, 2008, the City issued the following: $75,060 in General Improvement Bonds, Series 2008 and $85,005 Combination Tax and Revenue Certificates of Obligations, Series 2008.

The General Improvement Bonds, Series 2008 were issued to finance general improvements of the City. These include improvements to streets, bridges, sidewalks, parks, recreation, open space, athletics, drainage, library, and public health facilities. The Bonds have maturities ranging from 2011 to 2028, with interest rates ranging from 4.0% to 5.5%.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2008 will be utilized to fund permanent public improvements including constructing, renovating, and improving the San Antonio River Channel, health facilities, municipal golf courses, West End and Frank Garrett parks, La Villita and Maverick Plaza; constructing and improving hike and bike trails, pedestrian walkways, Briscoe Art Museum, parking facilities at the Spanish Governor's Palace, community family resource learning centers, municipal facilities, City Service Centers, parks, including Hemisfair Park, Market Square, parking facilities at the Witte Museum and Brackenridge Park; constructing, improving and converting Hayes Street Bridge to a pedestrian and biking bridge; acquiring, constructing and improving public safety facilities, libraries, land for Voelcker Park; demolition, constructing, and improving the animal care facility and parking facilities, demolition of the City Hall Annex and constructing parking facilities, walkways, landings and amenities along the Riverwalk; constructing and improving signage and delineation features for historic missions; replacing the flood control communication system; constructing street improvements and drainage incidentals; purchasing material supplies, equipment, machinery, land for authorized 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 2009 to 2028, with interest rates ranging from 3.5% to 5.5%.

On December 17, 2008, the City issued $15,320 in Tax Notes, Series 2008. The proceeds of the Notes will be utilized to fund updates and improvements to the City's information technology systems. The Notes have maturities ranging from 2009 to 2013, with interest rates ranging from 3.5% to 5.0%.

On May 28, 2009, the City issued an additional $30,100 in Tax Notes, Series 2009. The Notes were issued to finance general improvements of the City. These include improvements to streets, parks, and drainage. The Notes have maturities ranging from 2009 to 2010, with interest rates from 1.8% to 2.6%.

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad-valorem taxes levied upon all taxable property located within the City, within the limitations prescribed by law. The Certificates of Obligations with the exception of the Series 2000C Certificates, are additionally secured by a lien on and pledge of certain pledged revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash. The Series 2000C Certificates are additionally secured by a pledge of and lien on the funds on deposit in the Tax Increment Fund established by the City in connection with the Tax Increment Reinvestment Zone ("TIRZ") No. Nine established by the City in connection with the public/private downtown revitalization project known as the Houston Street Redevelopment Project after payment of certain administrative expenses incurred by governmental entities participating in the TIRZ, as provided in the Development Agreement relating to the TIRZ.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The Hotel Occupancy Tax Revenue Bonds are secured by Hotel Occupancy Tax ("HOT") currently levied at 9.0% of which 7.0% is designated as "General HOT" and 2.0% is designated as the "Expansion HOT". The General HOT is comprised of the pledged 1.75% HOT and the pledged 5.25% HOT. The Series 1996 HOT Bonds are secured by prior liens on revenues from the pledged 1.75% and 5.75% HOT, a lien on the revenues from the Expansion HOT, plus interest earnings on such funds including the debt service fund and the debt service reserve fund. The 2004A, 2006, and the 2008 HOT Bonds are secured by subordinate liens on revenues from the pledged 1.75% and 5.75% HOT, a subordinate lien on interest earnings on such funds, a prior lien on the interest earnings on the debt service fund, and a subordinate lien on the interest earnings of the debt service reserve fund. The 2007 HOT Notes are secured by a lien on and pledge of the surplus revenues derived from the collections of the 7.0% General HOT. The 2008 HOT Bonds are additionally supported by an irrevocable direct-pay Letter of Credit dated as of June 12, 2008 issued by Wachovia Bank, N.A., whom also serves as the remarketing agent and the paying agent. The Letter of Credit agreement will expire July 11, 2010; however, application has been made for an extension of the Letter of Credit for an additional 364 days to July 10, 2011. As of September 30, 2009, there have been no borrowings under the Letter of Credit.

The Municipal Drainage Utility System Revenue Bonds are secured by a lien on Stormwater revenues.

The Municipal Facilities Corporation Lease Revenue Bonds are paid by annually appropriated lease payments made by the City which equal the annual debt service on the Bonds.

The Starbright Industrial Development Corporation Contract Revenue Bonds are secured with a pledge of utility revenue received by the City from CPS Energy.

The Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds are secured by net operating revenues to be received from the Convention Center Hotel operations. In the event the net operating revenues are insufficient to pay all debt service, City tax revenues will be pledged in the following order of priority: first, from the Convention Center Hotel State HOT revenues; second, from Convention Center Hotel State sales tax revenues; third, from Convention Center Hotel 7.0% local HOT revenues; and fourth, from available Expansion HOT revenues on a subordinate basis.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation and tax notes. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchase 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, 2009, $171,155 of previously defeased bonds was 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, 2009 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, 2008	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2009
General Obligation Bonds:							
1998 Refunding	$ 30,855	2018	4.500-5.000	$ 13,075	$ -	$ 9,895	$ 3,180
1998A Refunding	49,110	2019	4.000-5.250	17,890		3,285	14,605
1999	12,000	2011	5.500	1,705		535	1,170
2000	27,565	2012	4.500-5.000	5,425		1,255	4,170
2000A	15,615	2013	5.250-5.375	3,685		650	3,035
2001	84,945	2015	3.000-5.250	2,565			2,565
2002 Forward Refunding	251,280	2013	5.000-5.250	113,140		19,970	93,170
2002	55,850	2023	3.000-5.500	29,230		5,130	24,100
2003	40,905	2014	2.750-5.000	22,465		5,310	17,155
2003A	56,515	2016	3.500-5.000	47,735		4,715	43,020
2004	33,570	2024	2.375-4.750	32,130		1,475	30,655
2005	116,170	2025	3.500-5.250	116,170			116,170
2006 Forward Refunding	33,090	2016	3.700-5.500	33,090		2,400	30,690
2006 Refunding	170,785	2026	3.500-5.000	161,905		2,745	159,160
2007 Refunding	121,220	2028	4.000-5.000	117,065		3,700	113,365
2008	75,060	2028	4.000-5.500		75,060		75,060
Total General Obligation Bonds	$ 1,174,535			$ 717,275	$ 75,060	$ 61,065	$ 731,270
Tax-Exempt Certificates of Obligation:							
Series 1998	$ 4,315	2018	4.700-5.000	$ 495	$ -	$ 135	$ 360
Series 1998A	36,535	2019	4.000-5.250	8,135		2,070	6,065
Series 1999	4,230	2011	5.750	600		190	410
Series 2000	8,490	2012	4.500-5.000	1,665		385	1,280
Series 2000A	8,810	2013	5.250-5.375	2,080		370	1,710
Series 2000C	6,415	2020	5.000-5.500	5,235		310	4,925
Series 2001	65,195	2013	4.000-5.250	32,425		5,845	26,580
Series 2002	69,930	2023	3.000-5.500	44,930		4,520	40,410
Series 2004	29,525	2024	2.000-5.000	25,780		2,200	23,580
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006	73,155	2026	3.500-4.370	67,800		2,600	65,200
Series 2007	106,755	2028	4.000-5.000	91,700		6,690	85,010
Series 2008	85,005	2028	3.500-5.500		85,005	2,835	82,170
Total Tax-Exempt Certificates of Obligation	$ 508,895			$ 291,380	$ 85,005	$ 28,150	$ 348,235
Taxable Certificates of Obligation:							
Series 2000B	$ 1,755	2011	7.500-7.550	$ 225	$ -	$ 70	$ 155
Total Taxable Certificates of Obligation	$ 1,755			$ 225	$ -	$ 70	$ 155
Tax Notes:							
Series 2007A	$ 21,270	2012	4.000-5.000	$ 17,925	$ -	$ 4,210	$ 13,715
Series 2008	15,320	2013	3.500-5.000		15,320	2,415	12,905
Series 2009	30,100	2010	1.840-2.610		30,100	8,625	21,475
Total Tax Notes	$ 66,690			$ 17,925	$ 45,420	$ 15,250	$ 48,095
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2017	5.100-6.020	$ 18,112	$ -	$ -	$ 18,112
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500	71,575		255	71,320
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		4,000	131,000
Series 2003 Municipal Drainage	44,150	2028	3.500-5.000	38,625		1,230	37,395
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	56,990		1,455	55,535
Series 2001 Municipal Facility Corp	14,465	2020	3.800-5.200	10,450		670	9,780
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	23,625		550	23,075
Total Revenue Bonds	$ 758,027			$ 578,412	$ -	$ 8,160	$ 570,252
Total	$ 2,509,902			$ 1,605,217	$ 205,485	$ 112,695	$ 1,698,007

[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 2009 has resulted in an increase of $18,812 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above 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, commercial paper, and all revenue bonds outstanding as of September 30, 2009 are 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
2010	$ 65,060	$ 35,947	$ 27,045	$ 15,816	$ 28,890	$ 1,560	$ 13,470	$ 27,286	$ 215,074
2011	71,225	32,743	28,360	14,613	7,715	866	10,057	26,710	192,289
2012	51,970	29,260	30,220	13,228	8,075	503	10,599	26,381	170,236
2013	54,175	26,607	33,510	11,765	3,415	171	10,981	26,019	166,643
2014	53,735	23,704	21,490	10,535			11,300	25,633	146,397
2015-2019	206,745	83,830	74,385	40,597			74,275	121,086	600,918
2020-2024	158,425	36,088	84,375	22,854			114,770	98,950	515,462
2025-2029	69,935	7,812	49,005	5,318			130,765	67,985	330,820
2030-2034							126,995	35,945	162,940
2035-2039							67,040	10,347	77,387
Total	$ 731,270	$ 275,991	$ 348,390	$ 134,726	$ 48,095	$ 3,100	$ 570,252	$ 466,342	$ 2,578,166

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	$ 72,246	$ 234,752
5/12/2007	Drainage	152,052	35,811	116,241
5/12/2007	Parks, Recreation, Open Space, and Athletics	79,125	68,187	10,938
5/12/2007	Library	11,025	8,398	2,627
5/12/2007	Public Health Facilities	800	800	
Total		$ 550,000	$ 185,442	$ 364,558

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, Recreation, 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.

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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 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 2009 was $83,852,318, which provides a debt ceiling of $8,385,232. The total outstanding debt that is secured by an ad valorem tax pledge is $1,148,950 including $21,195 that is reported 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 hundred dollars 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 Fund (Other Internal Service Fund) to meet those needs.

In May 2008, a loan was authorized from the City's Other Internal Service Fund to the City's Tax Increment Reinvestment Zone 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 average rate for the year ended September 30, 2009, was 1.3%, resulting in interest of $8. 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, 2009:

Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009
$ 648	$ -	$ -	$ 648

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

In June 2009, a loan in the amount of $460 was authorized for a period of not more than two years from the City's Other Internal Service Fund to the General Fund to finance the City's participation in an interagency agreement with the San Antonio Water System to implement a water efficiency project at the HemisFair Fountain. Upon completion of the project, the City is eligible for a one-time rebate, subject to SAWS Board approval, estimated at $110, and this rebate will be used to reimburse the loan from the Other Internal Service Fund along with the annual utility savings that will be realized in the Downtown Operations Department Operating Budget (General Fund) by reducing the Fountain's need to use SAWS water.

The HemisFair Fountain uses an estimated 36,000 gallons of water each year which equates to an annual estimated cost of $130 to the Downtown Operations Department (General Fund). These savings will be transferred to the Other Internal Service Fund with interest as needed to reimburse the Fund for its loan for the capital project.

The following is a summary of changes in the loan for the year ended September 30, 2009:

Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009
$ -	$ 460	$ -	$ 460

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, 2009 were approximately $14,312.

The City has entered into various lease purchase agreements for the acquisition of printers, fire fighting gear, self-contained breathing apparatus, a mainframe computer, various fire trucks and parts, golf cars, electrocardiograms, an inventory theft detection system, and 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	$ 38,423
Less: Accumulated Depreciation	(18,630)
Total	$ 19,793

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2009, 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:			
2010	$ 4,975	$ 10,468	$ 15,443
2011	3,739	5,279	9,018
2012	1,437	4,513	5,950
2013	699	3,510	4,209
2014	281	1,728	2,009
2015-2019		1,033	1,033
2020-After		1,864	1,864
Future Minimum Lease Payments	11,131	$ 28,395	$ 39,526
Less: Interest	(564)		
Present Value of Future Minimum Lease Payments	10,567		
Less: Current Portion	(4,654)		
Capital Lease, Net of Current Portion	$ 5,913		

MGA-SA has leased from the City certain golf carts (approximately 415 golf carts at September 30, 2009) which are used at municipal 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 $1,328 as of September 30, 2009. MGA-SA remaining lease obligation was $572. MGA-SA paid off the lease on February 25, 2010 in the amount of $350 after the first two quarterly payments of $118 were made in October 2009 and February 2010.

	Principal	Interest	Total
2010	$ 455	$ 16	$ 471
2011	117	1	118
	$ 572	$ 17	$ 589

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 enterprise fund 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.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

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 consists of Airport System Revenue Improvement Bonds (GAR) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GAR Bonds are payable from and secured solely by an irrevocable 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. PFC Bonds are payable from and secured by an irrevocable first lien on and pledge of the PFC revenues and a first lien on and pledge of the subordinate net revenues.

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 allocated to the Parking System on a pro rata basis from proceeds received from the issuance of general obligation debt and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. The allocated debt is secured by an ad valorem tax pledge.

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. The net proceeds from the sale of the Taxable General Improvement Refunding Bonds, Series 2008, which included an original discount of $52, were applied, together with a cash contribution of $13,600 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, the City will realize a total decrease of $2,984 in debt service payments and total deferred charges of $1,704. Through this defeasance the City obtained an economic loss (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $2,189. Refunding these obligations from tax-exempt debt to taxable debt 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 rates ranging from 5.8% to 6.6%.

Solid Waste Management – Solid Waste Management 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 Solid Waste Management on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Solid Waste Management related improvements and is paid from revenues derived from the operation of Solid Waste Management. The allocated debt is secured by an ad valorem tax pledge.

Capitalized Interest Costs - Interest costs incurred on revenue bonds, general obligation bonds, and other borrowing totaled $19,342. For fiscal year 2009, the amount of $4,337 and $33 was capitalized for the Airport System and Nonmajor Enterprise Funds, respectively, as part of their cost of additions.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain 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, 2009, $39,140 of previously defeased bonds was outstanding.

The following table is a summary of changes in debt obligations for the fiscal year ended September 30, 2009:

Business-type Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2008	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2009
Airport System:							
Revenue Bonds:							
Series 2001	$ 17,795	2016	5.375	$ 17,795	$ -	$ -	$ 17,795
Series 2002	92,470	2027	5.000-5.750	87,730		2,280	85,450
Series 2002 PFC	37,575	2027	4.000-5.750	32,395		995	31,400
Series 2003 Refunding	50,230	2013	5.500-6.000	28,610		5,085	23,525
Series 2003B	3,255	2009	2.300-3.000	1,135		1,135	-
Series 2005 PFC	38,085	2030	3.375-5.250	35,515		925	34,590
Series 2006	17,850	2014	5.000	15,260		1,165	14,095
Series 2007	82,400	2032	4.950-5.250	82,400		-	82,400
Series 2007 PFC	74,860	2032	3.640-5.150	72,740		1,615	71,125
Subtotal	$ 414,520			$ 373,580	$ -	$ 13,200	$ 360,380
Parking System:							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 22,115		$ 22,115	$ -
General Obligation Bonds:							
Series 2004 Refunding	13,245	2016	2.800-4.650	8,555	-	1,100	7,455
Series 2008 Refunding	10,120	2024	5.820-6.570		10,120		10,120
Subtotal	$ 48,210			$ 30,670	$ 10,120	$ 23,215	$ 17,575
Solid Waste Management:							
General Obligation Bonds:							
Series 2006	$ 1,000	2,026	3.500-5.000	$ 940		$ 35	$ 905
Certificate of Obligations:							
Series 2006	400	2026	3.500-5.000	380	-	15	365
Series 2007	2,500	2028	4.000-5.000	2,425		75	2,350
Subtotal	$ 3,900			$ 3,745	$ -	$ 125	$ 3,620
Total	$ 466,630			$ 407,995	$ 10,120	$ 36,540	$ 381,575

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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, 2009 are as follows:

Business-Type Long-Term Debt									
	Airport System			Parking System			Solid Waste Management		
Year Ending Sept. 30:	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2010	$ 15,855	$ 19,012	$ 34,867	$ 700	$ 930	$ 1,630	$ 125	$ 170	$ 295
2011	17,210	18,158	35,368	800	901	1,701	135	165	300
2012	18,125	17,217	35,342	1,175	862	2,037	140	158	298
2013	19,135	16,226	35,361	1,300	810	2,110	145	152	297
2014	17,170	15,168	32,338	1,480	750	2,230	150	145	295
2015-2019	76,475	62,240	138,715	5,250	3,035	8,285	890	605	1,495
2020-2024	80,190	42,808	122,998	6,870	1,367	8,237	1,135	361	1,496
2025-2029	82,275	20,149	102,424				900	93	993
2030-2034	33,945	3,394	37,339						
Total	$ 360,380	$ 214,372	$ 574,752	$ 17,575	$ 8,655	$ 26,230	$ 3,620	$ 1,849	$ 5,469

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	$ 22,811
Less: Accumulated Depreciation	(2,869)
Total	$ 19,942

As of September 30, 2009, 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,			
2010	$ 6,242	$ 1,675	$ 7,917
2011	6,068	318	6,386
2012	3,377	18	3,395
2013	3,377		3,377
2014	3,233		3,233
2015-2016	4,971		4,971
Future Minimum Lease Payments	27,268	$ 2,011	$ 29,279
Less: Interest	(2,604)		
Present Value of Future Minimum Lease Payments	24,664		
Less: Current Portion	(5,453)		
Capital Leases, Net of Current Portion	$ 19,211		

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	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 717,275	$ 75,060	$ (61,065)	$ 731,270	$ 65,060
Tax-Exempt Certificates of Obligation	291,380	85,005	(28,150)	348,235	26,970
Taxable Certificates of Obligation	225		(70)	155	75
Tax Notes	17,925	45,420	(15,250)	48,095	28,890
Revenue Bonds	578,412		(8,160)	570,252	13,470
	1,605,217	205,485	(112,695)	1,698,007	134,465
Unamortized (Discount) / Premium	39,991	6,575		46,566	7,007
Deferred Amount on Refunding	(10,287)	(3,751)		(14,038)	(1,798)
Total Bonds Payable	1,634,921	208,309	(112,695)	1,730,535	139,674
Total Commercial Paper [1]	10,500	15,305		25,805	
Other Payables:					
Accrued Arbitrage Rebate Payable [3]	501	26	(345)	182	
Lease Purchases	12,685	2,294	(4,412)	10,567	4,654
Accrued Leave Payable	203,617	313	(19,850)	184,080	38,997
Notes Payable	54,958	591	(2,194)	53,355	2,071
Pollution Remediation Liability [3]		904		904	
Other Payables	2,315		(2,315)		
Net OPEB Obligation [2]	18,267	23,174		41,441	
Total Other Payables	292,343	27,302	(29,116)	290,529	45,722
Total Governmental Activities Long-Term Liabilities	$ 1,937,764	$ 250,916	$ (141,811)	$ 2,046,869	$ 185,396
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	$ 9,495	$ 10,120	$ (1,135)	$ 18,480	$ 735
Tax-Exempt Certificates of Obligation	2,805		(90)	2,715	90
Revenue Bonds	395,695		(35,315)	360,380	15,855
Total Bonds Payable	407,995	10,120	(36,540)	381,575	16,680
Unamortized (Discount) / Premium	5,251	5,043	(109)	10,185	1,014
Deferred Amount on Refunding	(2,953)	(1,704)	451	(4,206)	(724)
Total Bonds Payable	410,293	13,459	(36,198)	387,554	16,970
Airport System Arbitrage Rebate Payable [3]	7		(7)		
Nonmajor Enterprise Arbitrage Rebate Payable [3]	1		(1)		
Lease Purchases Nonmajor Enterprise Funds	14,946	14,172	(4,454)	24,664	5,453
Accrued Landfill Postclosure Costs [3]	2,036	937	(620)	2,353	176
Pollution Remediation Liability [3]		700		700	
Net OPEB Obligation [2]	3,605	4,905		8,510	
Accrued Leave Payable	4,133	257		4,390	732
Total Other Payables	24,728	20,971	(5,082)	40,617	6,361
Total Business-Type Activities Long-Term Liabilities	$ 435,021	$ 34,430	$ (41,280)	$ 428,171	$ 23,331

NOTE: The accreted interest through fiscal year 2009 has resulted in an increase of $18,812 in Hotel Occupancy Tax Revenue Bonds payable in governmental activities. The accreted interest in the amount of $18,812 is reflected on the governmental fund combined statement 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.

[4] See Note 12, Pollution Remediation Obligation for a description of the Pollution Remediation Liability.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

Accrued Leave

The following is a summary of accrued leave for the year-ended September 30, 2009:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 9,055	$ 29,474	$ 38,529	$ 142,747	$ 181,276
Internal Service Funds		468	468	2,336	2,804
Total Governmental Activities	$ 9,055	$ 29,942	$ 38,997	$ 145,083	$ 184,080

The General Fund accounts for approximately 65.0% of the City's employees; therefore, most of the accrued leave 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 accrued leave.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport System	$ 373	$ 1,865	$ 2,238
Nonmajor Enterprise Funds	359	1,793	2,152
Total Business-Type Activities	$ 732	$ 3,658	$ 4,390

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 (formerly known as Higher Education Authority), 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, 2009, the aggregate principal amounts payable are as follows: seven series of Education Facility Revenue Bonds in the amount of $108,045; three series of Industrial Revenue Bonds in the amount of $25,850; and one series of Empowerment Zone Development Revenue Bonds in the amount of $21,900.

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, 2009, 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 $220,717.

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, 2009 was $3,200, respectively.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

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, 2009, the aggregate amount of the outstanding loan totaled $13,405.

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, 2009, the amount of conduit debt was $33,539.

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, 2009, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount issued and payable of $608,900.

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, 2009 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.

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.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

As of January 31, 2009, 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;
- 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;

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

- 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, 2009, 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 December 23, 2008, CPS Energy issued $158,030 of tax-exempt New Series 2008A Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2010 to 2016, was 3.7%. The bond proceeds were deposited into an escrow fund irrevocably pledged to the refunding of $165,300 par value of the tax-exempt New Series 1998A Bonds (1998A Bonds). As a result, this was considered to be an insubstance defeasance for accounting and financial reporting purposes; therefore, at January 31, 2009, the related liability was not reflected on the Balance Sheets.

On February 1, 2009, the escrowed proceeds were used to refund $165,300 par value of the 1998A Bonds. This refunding transaction resulted in a net present value debt service savings of $6,200, or 3.8% of the par amount of the bonds refunded.

On June 28, 2008, CPS Energy issued $287,935 of tax-exempt New Series 2008 Revenue Bonds. The true interest cost for this issue, which has maturities that extend from 2017 to 2032, was 4.6%. Total bond proceeds, including net original issue premium, are being used to fund generation, as well as electric and gas distribution construction projects.

CPS Energy Revenue Bond Summary

Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2009	January 31, 2009
Tax Exempt New Series Bonds, 1994A-2008A; 2010-2032	4.7%	$ 3,092,915
Total		3,092,915
Tax Exempt Variable-Rate Series Bonds, 2003-2004, 2024-2033		402,000
Total Long-Term Revenue Bonds Outstanding		3,494,915
Less: Current Maturities of Bonds		148,705
Total Revenue Bonds Outstanding, Net of Current Maturities		$ 3,346,210

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2009, 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
2010	$ 148,705	$ 161,672	$ 310,377
2011	162,235	154,013	316,248
2012	176,190	145,634	321,824
2013	173,925	136,678	310,603
2014	184,255	127,493	311,748
2015-2019	770,085	512,385	1,282,470
2020-2024	967,975	307,386	1,275,361
2025-2029	576,685	98,602	675,287
2030-2033	334,860	21,856	356,716
Totals	$ 3,494,915	$ 1,665,719	$ 5,160,634

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 1.7% 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.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

The turmoil in the capital markets has had a minimal impact on CPS Energy's variable-rate debt. Initially, rates increased during a one- to two-month period at the onset of the financial crisis, but have since decreased and stabilized. 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.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2008	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2009
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ -	$ 68,965
1998A Tax Exempt	785,515	2021	4.918	430,980		203,320	227,660
2000A Tax Exempt	170,770	2010	5.374	4,880		2,390	2,490
2001 Tax Exempt	115,280	2011	3.843	62,615		24,480	38,135
2002 Tax Exempt	436,090	2017	4.055	426,040		19,430	406,610
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	81,855		305	81,550
2003 Tax Exempt	350,490	2013	3.081	192,055		47,270	144,785
2004 Tax Exempt Junion Lien	160,000	2027	Variable	152,000			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		12,670	371,515
2006B Tax Exempt	128,845	2021	3.974	120,945		8,275	112,670
2007 Tax Exempt	46,195	2018	4.159	46,195			46,195
2007 Tax Exempt	403,215	2032	4.575	403,215			403,215
2008 Tax Exempt	287,935	2032	4.582		287,935		287,935
2008A Tax Exempt	158,030	2016	3.736		158,030		158,030
				3,367,090	445,965	318,140	3,494,915
Bonds Outstanding:							
Bond Current Maturities				(152,875)	-	(4,170)	(148,705)
Bond (Discount)/Premium				117,105	25,185	17,882	124,408
Bond Reacquisition Costs				(91,574)	(10,428)	(25,505)	(76,497)
Revenue Bonds, Net				3,239,746	460,722	306,347	3,394,121
Tax Exempt Commercial Paper (TECP)			Variable	450,000			450,000
Total Long-Term Debt, Net				$ 3,689,746	$ 460,722	$ 306,347	$ 3,844,121

Accrued Leave

As of January 31, 2009 the accruals for employee vested benefits were $15,300.

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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.

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.

Revenue Bonds

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 from .10% to 3.9%. 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 from 1.1% to 4.9%. 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.

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 $1,138,430 at December 31, 2008, 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.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

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, Series 2007-A, Series 2008, and Series 2008A, outstanding in the amount of $288,095 at December 31, 2008, 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 $1,000 at December 31, 2008, 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.

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, 2008:

	Beginning Balance Jan. 1, 2008	Additions	Reductions	Ending Balance Dec. 31, 2008	Due Within One Year
Bonds Payable	$ 1,512,510	$ 53,260	$ 138,245	$ 1,427,525	$ 31,035
Deferred Amounts for Issuance					
(Discounts)/Premiums/(Losses)	(19,645)		(302)	(19,343)	
Total Bonds payable, Net	$ 1,492,865	$ 53,260	$ 137,943	$ 1,408,182	$ 31,035

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

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
2009	$ 17,655	$ 55,874	$ 13,360	$ 9,349	$ 20	$ 42
2010	16,535	55,051	15,450	9,202	20	41
2011	17,340	54,228	15,900	8,760	20	40
2012	18,195	53,367	16,375	8,284	20	39
2013	19,060	52,424	16,960	7,769	20	38
2014-2018	117,655	245,100	93,490	29,859	170	177
2019-2023	193,500	206,364	69,140	14,488	200	136
2024-2028	276,665	146,628	22,850	6,977	230	93
2029-2033	154,895	92,921	10,970	4,159	300	39
2034-2038	223,925	47,351	13,600	1,529		
2039-2040	83,005	4,203				
Total	$ 1,138,430	$ 1,013,511	$ 288,095	$ 100,376	$ 1,000	$ 645

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. At the time of issuance, the principal and interest payments on the Series 2003 Bonds were insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation (MBIA). In August 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the outstanding principal amount of $111,615 of the Series 2003 Bonds due to continued unfavorable market conditions relating to the ratings downgrade of MBIA, resulting in significantly higher variable rates of interest being paid on the Series 2003 Bonds. This partial redemption was effected with commercial paper notes, leaving $1,000 of the Series 2003 Bonds outstanding. At December 31, 2008 the interest rate swap serves to hedge the $1,000 of the Series 2003 Bonds outstanding and $110,615 of commercial paper notes. Upon the maturity of this commercial paper, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap. There was no economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper are expected to closely match the debt service requirements of the refunded debt.

Terms – The swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow the original scheduled reductions in the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap agreement matures on May 1, 2033. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns FPI), with the index for the variable rate leg of the SWAP being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

In March 2008, JP Morgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. The transaction closed on May 30, 2008. JP Morgan Chase has guaranteed the trading obligations of Bear Stearns and its subsidiaries.

The combination of variable-rate bonds, commercial paper notes, and a floating-to-fixed swap creates a synthetic fixed rate issue. The synthetic fixed rate of 4.2% protects against the potential of rising interest and achieved a lower fixed rate than in the traditional fixed rate bond market at the time of issuance of the Series 2003 Bonds.

Fair Value - The swap had a negative fair value as of December 31, 2008 of $18,300. 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, 2008, 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, 2008. 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 hedged variable-rate debt do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged variable-rate debt. As previously noted, during the third quarter of 2008 SAWS experienced basis risk relating to the Series 2003 Bonds due to the ratings downgrade of MBIA from "AAA" to "AA-". To mitigate the basis risk, SAWS redeemed $110,615 of the Series 2003 Bonds with proceeds from the issuance of commercial paper notes. The interest rate swap is now hedging the remaining outstanding balance of the Series 2003 Bonds and the associated commercial paper notes.

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.

Market-access Risk – SAWS is subject to market-access risk as $110,615 of variable-rate debt hedged by the swap is outstanding commercial paper with current maturities less than 127 days. As previously noted, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap. As described more fully under the commercial paper program section, SAWS' commercial paper is issued under a revolving credit agreement that expires July 7, 2009. Due to current uncertainty in the financial credit market, renewing or replacing this revolving credit agreement will likely become more costly to SAWS. SAWS estimates that the increased cost to renew or replace the revolving credit agreement will not exceed $3,000 annually.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 2008, debt service requirements of the hedged 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. The commercial paper principal payments assume that commercial paper will be repaid in accordance with the amortization schedule of the swap.

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

	Principal				
Year	Series 2003 Bonds	Commercial Paper	Interest paid on Debt	Interest Rate Swap, Net	Total
2009	$ 20	$ 2,465	$ 1,341	$ 3,222	$ 7,048
2010	20	2,580	1,310	3,147	7,057
2011	20	2,700	1,278	3,068	7,066
2012	20	2,820	1,243	2,986	7,069
2013	20	2,950	1,208	2,900	7,078
2014-2018	170	16,835	5,443	13,073	35,521
2019-2023	200	21,050	4,273	10,261	35,784
2024-2028	230	26,330	2,809	6,747	36,116
2029-2033	300	32,885	981	2,355	36,521
Total	$ 1,000	$ 110,615	$ 19,886	$ 47,759	$ 179,260

Debt Covenants – SAWS is required to comply with various provisions included in the ordinances 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, 2008, $120,340 of bonds outstanding is considered defeased.

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, 2008	$ 5,711	$ 4,881	$ (4,264)	$ 6,328	$ 4,264

Amounts are expressed in thousands

Note 7 Commercial Paper Programs

Primary Government (City)

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). On November 18, 2008 and on June 1, 2009, the City issued $14,000 and $1,305 of commercial paper, respectively, in support of the Edwards Aquifer Protection Venue Project. As of September 30, 2009, $25,805 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, 2009, 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, 2008	Additions	Deletions	Balance Outstanding September 30, 2009
Series A (2007)	$ 10,500	$ 15,305	$ -	$ 25,805

CPS Energy

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.

Amounts are expressed in thousands

Note 7 Commercial Paper Programs (Continued)

CPS Energy (Continued)

As of January 31, 2009, 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, 2009, is $450,000.

TECP Outstanding	$ 450,000
TECP New Money Issues	-
Weighted Average Interest Rate of Outstanding TECP	1.2%
Average Life of Outstanding TECP (Approximate Number of Days)	96

San Antonio Water System (SAWS)

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. The current revolving credit agreement with Bank of America, N.A. and State Street Bank and Trust Company, dated July 1, 2004, extends to July 7, 2009. Pursuant to the most recent amendment to the revolving credit agreement, the capacity of the revolving credit agreement has been reduced to $300,000.

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. and State Street Bank and Trust Company
- 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 $261,115 are outstanding as of December 31, 2008. Of this balance, $110,615 relates to the refunding of all but $1,000 of the Series 2003 Bonds while the remaining $150,500 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2008 range from 0.70% to 1.85% and maturities range from 30 to 127 days. The outstanding notes had an average rate of 1.09% and averaged 66 days to maturity.

SAWS intends to reissue maturing commercial paper and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed previously, SAWS intends to redeem $2,465 of commercial paper in 2009. Therefore, this portion of the commercial paper is classified as a current liability.

Amounts are expressed in thousands

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

The following summarizes transactions of the program for the year-ended December 31, 2008.

	Beginning Balance January 1, 2008	Additions	Reductions	Ending Balance December 31, 2008
Tax Exempt Commercial Paper Notes	$ 100,000	$ 164,115	$ 3,000	$ 261,115

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 Plan	Single Employer Defined Benefit Plan	$ 251,321	$ 31,172	$ 62,344	$ 93,516
	Texas Municipal Retirement System (TMRS) - Civilian	Nontraditional Hybrid Defined Benefit Agent Plan	$ 259,224	$ 15,561	$ 33,510	$ 49,071
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Defined Benefit Agent Plan	$ 68,412	$ 2,216	$ 2,600	$ 4,816
	[1] SAWSRP Contract	Single Employer Defined Benefit Plan	$ 66,996	$ -	$ 4,891	$ 4,891
CPS Energy	[2] CPS All Employee Plan	Single Employer Defined Benefit Plan	$ 217,018	$ 11,044	$ 20,561	$ 31,605

[1] Plan year ended December 31, 2008

[2] Fiscal year ended January 31, 2009

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, 2009, membership of the Pension Fund consisted of:

	2009
Retirees and beneficiaries receiving benefits	2,026
Active participants	3,735
Total	5,761

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 did not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund did not meet the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2009.

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, receive 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, receive 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 receive 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 24.64% of salary, excluding overtime pay, in 2009. The employee contribution rate was 12.32% in 2009. 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 2009 were determined as part of the October 2008 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 4.3%. 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, 2008 was 12.0 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, 2009 are as follows:

	2009	
		Percentage of Covered Payroll
Employer	$ 62,344	24.6%
Employee	31,172	12.3%
Total	$ 93,516	

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.

- 109 - Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Texas Legislature amended the Pension Law during the 81st Regular Session, with those changes becoming effective on October 1, 2009. The major changes enacted during the 2009 legislative session are the following: (1) the implementation of a procedure to allow members who have served probationary time prior to becoming a member to purchase service credit for that time; (2) an increase in the COLA payments to members that retired between 1997 and 1999; (3) expansion of the BackDROP payment election from 4 years to 5 years; (4) establishment of a 55-year-old minimum age for marriage after retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments; (5) an increase in the lump sum death benefit payment to spouses who do not qualify for annuity payments, and who married the deceased member post-retirement, from $2,500 to $15,000; (6) the elimination of minimum years of marriage requirement for eligibility for such lump sum payments; (7) changing the allocation of death benefits between a surviving spouse and the dependent children of a member from 50% - spouse and 50% - children to 75% - spouse and 25% - children; and (8) the establishment of a procedure to allow the fire chief and police chief to opt out of membership in the Pension Fund.

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, 2008, 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, 2008 resulted in a $332,576 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2010 contribution rate under a 29-year amortization period for the City was estimated by TMRS to be 17.5%. However, under the phase-in option the rate would be 13.9% for calendar year 2010.

During fiscal year 2008, the City created a work plan to review and address the changes made by TMRS, obtained a voting seat on the TMRS Board, and conducted six focus groups with employees and retirees asking input via a survey on their TMRS benefits and priorities. The survey results provided 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 was formed to provide input regarding the work to be completed by this actuarial firm.

As approved by City Council as part of the 2010 budget, the reoccurring COLA applied towards retirees’ account was turned off in the fiscal year 2010 budget. This resulted in a reduction in the City’s contribution rate from a phased in rate of 13.9% to 12.3%. The City will continue to explore options and prepare recommendations for the next legislative session to be held in January 2011.

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 was 13.07% for calendar year 2009, 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, using the Projected Unit Credit actuarial cost method. 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 rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates includes recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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 29-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 29-year period. Currently, the unfunded actuarial liability is amortized over a constant 29-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 and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used 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 (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com.

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, 2007, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2008.

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 827 administered by TMRS, an agent multiple-employer public employee retirement system.

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 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 age 60 and above with 5 or more years of services 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 and actuarial constraints in the state statutes governing TMRS

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by contacting TMRS at:

PO Box 149153
Austin, Texas 78714-9153
Telephone: 1-800-924-8677
Website: www.tmrs.com

Under the state law governing TMRS, SAWS is required to contribute at an actuarially determined rate. These rates are provided on an annual basis, following the completion of the actuarial valuation. There is a delay in the valuation and when the rate becomes effective – for example the 2008 contribution rate is based on the December 31, 2006 valuation results. If a change in plan provisions is adopted by SAWS' Board of Trustees, the contribution rate can change. For 2008, SAWS' actuarially determined contribution rate was 3.5% of salary. The current contribution rate for employees is 3% of salary.

TMRS
Schedule of Contributions

	2008
Employer Contribution	$ 2,600
Employee Contribution	$ 2,216
Employer Contribution Rate	3.5%

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 relating to provisions adopted by a participating government. In 1992, SAWS adopted the Updated Service Credit provision which allows for an adjustment to the employee's accumulated contributions and credited interest at the valuation date to account for the assumption that the employee's salary has always been the employee's average salary during the preceding 36 months. SAWS also adopted a provision which grants annuity increases for retirees equal to 70.0% of 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.

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

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. As a result of these changes, SAWS' actuarially required contribution for 2009 is 5.0% while the phased-in rate for 2009 is 3.8% of salary.

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.

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:

- Twenty years of vesting service regardless of age, or
- 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:

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

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

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

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. 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 SAWSRP shall be paid by SAWS.

Due to a significant decline in U.S. equity values during 2008, SAWS anticipates a reduction in the funded ratio for both defined benefit plans at the next actuarial valuation dates due to a decrease in the value of plan assets. This decline in value will result in higher annual required contributions during the next few years. SAWS does not expect the increase in its annual required contributions to have a material adverse impact on its financial condition or operations.

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	29 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	
Postemployment Benefits	

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.

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

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.

- 115 - *Amounts are expressed in thousands*

Note 8 Pension and Retirement Plans (Continued)

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.

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.

Plan net assets had a market value of $806,000 at December 31, 2008.

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 annually 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 $129 for fiscal year 2009. 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 crediting rate was 8.0% for fiscal year 2009.

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 2009, 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 9.5% of covered payroll in fiscal year 2009.

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.

Funded Status and Funding Progress - The funded status of the Plan as of February 1, 2008 valuation date is noted at the end of this note. 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.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Actuarial Methods and Assumptions – Beginning with the 2008 Plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. Actuarial valuation methods used for the February 1, 2008 valuation included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial accrued liability, and (c) the twenty year level dollar open for amortization of pension service costs.

Significant actuarial assumptions used for the February 1, 2008, 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%.

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 ARC Contributed
Fire and Police	2007	$ 54,952			$ 54,952	$ (54,952)				100.0%
Pension Plan City	2008	58,101			58,101	(58,101)				100.0%
of San Antonio	2009	62,071			62,071	(62,071)				100.0%
TMRS -	2007	$ 28,455			$ 28,455	$ (28,455)				100.0%
City of	2008	30,538			30,538	(30,538)				100.0%
San Antonio	2009	33,510			33,510	(33,510)				100.0%
CPS All	2007	$ 10,051			$ 10,051	$ (10,051)				100.0%
Employee Plan [1]	2008	20,868			20,868	(22,841)	(1,973)			109.5%
	2009	20,561	(164)	193	20,590	(20,561)	29	(1,973)	(1,944)	99.9%
TMRS -	2006	$ 2,197			$ 2,197	$ (2,197)				100.0%
SAWS [2]	2007	2,386			2,386	(2,386)				100.0%
	2008	2,600			2,600	(2,600)				100.0%
SAWRP -	2006	$ 4,575			$ 4,575	$ (4,575)				100.0%
SAWS [2]	2007	4,710			4,710	(4,710)				100.0%
	2008	4,891			4,891	(4,891)				100.0%

[1] Fiscal year-ended January 31, 2009
[2] Plan year-ended December 31, 2008

Funded Status and Funding Progress

	Fire and Police Pension Plan	City of San Antonio TMRS	SAWS TMRS	SAWS SAWSRP	CPS Energy
Actuarial value of plan assets (a)	$ 2,096	$ 492,604	$ 62	$ 74	$ 1,084,569
Actuarial accrued liability (b)	2,350	825,180	91	89	1,103,865
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 254	$ 332,576	$ 29	$ 15	$ 19,296
Funded ratio (a) / (b)	89.2%	59.7%	68.1%	83.1%	98.3%
Covered payroll (c)	$ 244	$ 259,224	$ 68	$ 67	$ 217,018
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	104.1%	128.3%	42.6%	22.4%	8.9%

Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2008, 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 - SAWS	30 Years - Closed Period
Remaining Amortization Period - City	29 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%

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. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City will be required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 became applicable to the City in Fiscal Year 2008 and the City continues to actively review each of these plans and has had actuarial valuations performed for these 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 with approval from the City Council. This program is funded on a pay-as-you-go basis with a sharing of required costs based on the following targets: 67% by the City and 33% by the retiree. Currently, there are 5,960 active civilian employees who may become eligible in the future. Employees become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. 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.

As of September 30, 2009, there were 1,406 retirees participating in the program. The participating 494 Non-Medicare retirees are offered a choice of three PPO Medical plans and one EPO option with each plan having separate premium, deductible and coinsurance amounts. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65. Of the current 912 participating Medicare retirees, 272 participate in a fully insured Medicare HMO, 541 selected a fully insured Medicare Supplement while the remaining 99 participants are covered by a self-insured Medical PPO which coordinates with Medicare, paying 100% of eligible expenses after the member has satisfied a $125 Medicare deductible and a $1,000 Carve Out Coordination of Benefit limit. This plan may be amended at any time by the City Council. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

With the adoption of the fiscal year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the Program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the Program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50% of the pay-as-you-go contributions to the Program and the City will contribute 50%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan.

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 $12,590 of which $8,354 were medical claims. For the year-ended September 30, 2009, total contributions were as follows:

Total Contributions	
City	$ 9,177
Retiree Premiums	3,413
Total Contributions	$ 12,590

No contributions were made in fiscal year 2009 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, 2009, the City received $534 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.

Annual OPEB Cost and Net OPEB Obligation - For the fiscal year-ended September 30, 2009, the City's annual postemployment benefits other than pension (OPEB) cost was not 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 City will not be funding the ARC at this time.

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Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

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. The table below details the actuarial methods and assumptions for the City's OPEB calculation for the fiscal year-ended September 30, 2009:

Assumptions	
Actuarial Valuation Date	1/1/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	3.00%
Projected Salary Increase	N/A
Healthcare Inflation Rate - Medical	10% initial (2009)
	5% ultimate (2014)
Healthcare Inflation Rate - Presription	12% initial (2009)
	5% ultimate (2016)

Below are the health care cost trend assumptions used for the City's January 1, 2009 actuarial study for the fiscal year-ended September 30, 2009.

City's Health Care Cost Trend Assumptions

Year	Medical	Prescription Drugs
2009	10.0%	12.0%
2010	9.0%	11.0%
2011	8.0%	10.0%
2012	7.0%	9.0%
2013	6.0%	8.0%
2014	5.0%	7.0%
2015	5.0%	6.0%
2016+	5.0%	5.0%

The City's retiree participation rate is estimated to be at 60%. 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.

- 120 - *Amounts are expressed in thousands*

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

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 2009.

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, 2009, 2010, 2011, and years thereafter, the specified employee contribution rates were 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, 2009:

Biweekly Contributions:	
Active Fire and Police Members	$65.78
City of San Antonio for Each Member	$229.01
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	$142.92
Dependent Children	$157.35

Total contributions by active firefighters and police officers were $6,197 for the year ended September 30, 2009.

Membership in the Plan consisted of the following at September 30, 2009:

Retirees and Beneficiaries Receiving Benefits	2,766
Active Plan Members	3,735
Total Membership	6,501

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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.

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:

Assumptions	
Valuation Date	10/1/2009
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	
Net of Expense	8.0%
Annual Inflation Rate	4.0%
Projected Annual Salary	
Increases	4.5% to 15.0%
Health Care Cost Rate Trend:	8.0% Initial
	5.5% Ultimate
Annual Payroll Growth Rate	4.00%

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- 122 - *Amounts are expressed in thousands*

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy

CPS Energy provides certain health, life insurance and disability income 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 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 the Board.

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.

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.

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 $3,100 in fiscal year 2009.

CPS Energy's contributions in relation to the ARC for the Health Plan amounted to 7.0% of covered payroll in fiscal year 2009. 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. These payments totaled $786 for fiscal year 2009. 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 $75 in fiscal year 2009 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.1% of covered payroll in fiscal year 2009.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.2% of covered payroll in fiscal year 2009.

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 $13,100 for fiscal year 2009. 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.

CPS Energy has selected the aggregate cost method for determining Life and Disability 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 plans.

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.

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. Beginning with the 2008 plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions.

Significant actuarial assumptions used in the calculations for the February 1, 2008 valuation 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 9.0% for 2008 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.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

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.

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. SAWS is currently evaluating ways to phase-in full funding of the actuarially determined annual required contribution.

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, 2008 SAWS' contribution to the plan equaled the current premiums of $5,132, while plan members receiving benefits contributed $116 through their required contribution. No contributions were made in 2008 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation – For the year-ended December 31, 2008, SAWS' annual OPEB cost is calculated based on the annual required contributions (ARC).

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.

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 years. The UAAL is being amortized as a level dollar amount over thirty years. The remaining amortization period at December 31, 2008 was 30 years.

Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

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%

Two-Year Trend Information

The City's, CPS Energy's and SAWS' annual OPEB cost, employer contributions, percentage cost contributed to the plan, and net OPEB obligation for fiscal years 2009 and 2008 were as follows:

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligation	Adjustment To ARC	Annual OPEB Cost	Contributions In Relation to ARC	Increase (Decrease) in Net OPEB	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year	Percentage of ARC Contributed
City of San Antonio	2008	$ 29,786	$ -	$ -	$ 29,786	$ (7,914)	$ 21,872	$ -	$ 21,872	26.6%
	2009	35,818	656	(1,116)	35,358	(7,279)	28,079	21,872	49,951	14.6%
CPS - Health Plan[1]	2008	13,181	71	(84)	13,168	(43,864)	(30,696)	893	(29,803)	333.1%
	2009	12,337	(2,384)	2,810	12,763	(15,192)	(2,429)	(29,803)	(32,232)	119.0%
CPS - Life Plan[1]	2008	-	(7)	8	1	(349)	(348)	(90)	(438)	27007.3%
	2009		(35)	42	7	(127)	(120)	(438)	(558)	2028.4%
CPS - Disability Plan[1]	2007	209	9	(10)	208	(291)	(83)	106	23	140.0%
	2008	285	2	(2)	285	(433)	(148)	23	(125)	151.9%
SAWS - OPEB[2]	2007	17,696	-	-	17,696	(4,479)	13,217	-	13,217	25.3%
	2008	17,696	765		18,461	(5,132)	13,329	13,217	26,546	27.8%

[1] Fiscal year-ended January 31, 2009

[2] Plan year-ended December 31, 2008

The Fire and Police Retiree Health Care Fund was not able to provide the documentation for the table above.

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Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

The City's, Fire and Police Health Care Fund, SAWS' and CPS Energy's funded status for the most recent year are as follows:

Funded Status and Funding Progress

	City of San Antonio	Fire and Police Health Care Fund	SAWS	CPS Energy Health Plan	CPS Energy Life Plan	CPS Energy Disability Plan
Actuarial value of plan assets (a)	$ -	$ 208,384	$ -	$ 194,876	$ 49,098	$ 3,734
Actuarial accrued liability (b)	342,018	561,035	297,259	247,283	33,024	5,712
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 342,018	$ 352,651	$ 297,259	$ 52,407	$ (16,074)	$ 1,978
Funded ratio (a) / (b)	0.0%	37.1%	0.0%	78.8%	148.7%	65.4%
Covered payroll (c)	$ 259,224	$ 226,707	$ 75,270	$ 217,018	$ 185,090	$ 185,090
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	131.9%	155.6%	394.9%	24.1%	-8.7%	1.1%

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 1,350 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. On October 19, 2008, Exelon announced an unsolicited bid to acquire NRG. Subsequently, Exelon took the exchange offer directly to NRG shareholders after NRG twice rejected the offer. The current tender offer has been extended to June 26, 2009.

CPS Energy's 40.0% ownership in STP represents approximately 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.

Units 3 and 4 Project – On June 28, 2006, NRG announced plans to construct two additional reactors ("STP Units 3 and 4") at the current two-unit STP site. With this addition, energy production at that site is projected to increase by approximately 2,700 megawatts. In July 2006, in response to NRG's announcement, CPS Energy formed a cross-functional task force of more than 30 in-house staff from various disciplines and external 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 Board in early 2007, and an ongoing due diligence team was established to monitor project developments and make additional recommendations regarding CPS Energy's potential participation in STP Units 3 and 4.

Amounts are expressed in thousands

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

Joint Operations (Continued)

In September 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 participation agreement among the STP owners and agreed to potentially own up to 50% of STP Units 3 and 4. The Supplemental Agreement provided for CPS Energy to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Boards of CPS Energy and NRG subsequently approved the Supplemental Agreement, which was effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 did not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP.

Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application ("COLA") to build and operate STP Units 3 and 4. This COLA 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 it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC ("NINA"). NRG has an 88.0% ownership interest in NINA, while Toshiba Corporation ("Toshiba") 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 is now CPS Energy's partner for the co-development of STP Units 3 and 4.

On September 24, 2008, STPNOC, on behalf of CPS Energy and NINA, filed with the NRC an updated COLA naming Toshiba as the provider of STP Units 3 and 4. On February 10, 2009, the NRC issued a schedule for completing its review of the COLA. The NRC expects to issue the final Safety Evaluation Report in September 2011. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.

Also in September 2008, CPS Energy filed a Phase I application for a Department of Energy ("DOE") loan guarantee related to its portion of the estimated project costs. Following the DOE's evaluation of all Phase I applications, the DOE ranked the project third out of a field of fourteen nuclear loan guarantee project applications that were submitted. Subsequently, the DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including STP Units 3 and 4.

On November 5, 2008, STPNOC and the DOE executed a Standard Contract in which the DOE undertook the obligation to provide for permanent disposal of used nuclear fuel from the proposed STP Units 3 and 4 project.

On January 20, 2009, the Board authorized the Company to work with STPNOC to enter into an engineering, procurement and construction ("EPC") agreement with Toshiba for STP Units 3 and 4. The EPC agreement did not commit CPS Energy to build the new nuclear units. Instead, it enabled the Company to lock in favorable terms and conditions with the contractor prior to a final construction decision once the NRC issues a license for the project. The agreement was subsequently signed by all parties on February 24, 2009.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and approved a request for $400,000 in bonds to support the project. However, amid reports that CPS Energy had knowledge that costs of the project might be significantly higher than previously reported, the City Council's vote on the bonds was postponed. This higher project cost estimate prompted the San Antonio City Council to reevaluate CPS Energy's stake in the project and members of CPS Energy's management to engage in negotiations with representatives from Toshiba Corporation in November 2009.

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

Joint Operations (Continued)

Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS Energy's management had knowledge of an increase in the preliminary cost estimate for STP Units 3 and 4 and why that information was not previously communicated to the Board. The results of this investigation were reported to the Board in late 2009 and, based on the report, the Board adopted a resolution finding that there was a failure of the communication from certain members of CPS Energy executive management to the Board and the City Council regarding a revised cost estimate that was publicly disclosed in October 2009. The investigation report also concluded that there was no malicious intent on the part of any member of the management team in connection with the failure of the communication. Further, the report found that no member of management instructed any other employee to conceal or withhold any information from the Board and that lack of information flowing to the Board was, at worst, due to a difference of opinion about what information should be deemed material and deserving of the Board's attention.

While the project's cost controversy was being investigated, CPS Energy explored all its options regarding participation in or withdrawal from the project. On December 6, 2009, the Company filed a petition in Bexar County district court to clarify the roles and obligations of CPS Energy and NINA to define the rights of both parties should either decide to withdraw from the project. NRG escalated the litigation when it sued CPS Energy and claimed the Company should forfeit all investment to date and lose all value in the project's land and water rights. CPS Energy amended its petition on December 23, 2009, and raised significant issues concerning misconduct by NRG and NINA. The Company specified actual and exemplary damages of $32,000,000.

On February 17, 2010, CPS Energy and NINA announced that a proposed settlement had been reached that ended the parties' legal disagreement and allowed the proposed expansion of STP Units 3 and 4 to proceed. As a result of the settlement, CPS Energy's ownership stake in STP Units 3 and 4 was reduced from 50.0% to 7.6%, while NINA and Toshiba Corporation retained 92.4% ownership. NINA will pay all development costs incurred after January 31, 2010. CPS Energy has withdrawn its pending application for a DOE loan guarantee and will support the NINA loan guarantee applications. In addition to receiving a higher ownership level at 7.6% than approximates CPS Energy's expenditures to date, NINA agreed to pay CPS Energy $80,000, in two $40,000 payments, conditional on their loan guarantees being approved by the DOE. NINA also agreed to make a contribution of $10,000 over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. The settlement agreement was finalized on March 1, 2010. CPS Energy's project costs to date of $380,000 for development of STP Units 3 and 4 are included in construction-in-progress.

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. 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 March 2008 showed that CPS Energy's share of decommissioning costs was $386,300 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. Excess or deficient funds related to the 28.0% Trust will be received from or distributed to CPS Energy's ratepayers after decommissioning is complete.

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, excess or deficient funds related to the 12.0% Trust will be received from or distributed to AEP customers after decommissioning is complete.

Excluding securities lending collateral, as of December 31, 2008, CPS Energy had accumulated approximately $219,100 in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 28% Trust funds allocated to decommissioning costs totaled $153,900, which exceeded the calculated financial assurance amount of $107,700 at December 31, 2008.

The March 2008 cost study estimated decommissioning costs for the 12% ownership in STP Units 1 and 2 at $165,600 million in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2008, approximately $77,400 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 12% Trust funds allocated to decommissioning costs totaled $54,400, which exceeded the calculated financial assurance amount of $46,100 at December 31, 2008.

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

STP Pension Plan and Other Postretirement Benefits

In fiscal year 2009, the Company changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the March 2008 cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will reflect the effects of inflation and an additional year of plant usage. Additionally, guidance under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*, will be followed to retain the zero fund net assets approach to accounting for the Decommissioning Trusts. There was no impact to fund net assets as a result of this change in accounting method. Prior-year amounts have been reclassified to conform to current-year presentation.

Both Decommissioning Trusts also have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

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 $27,700 were made by STP in the 2007 calendar year, all of which were for the 2006 plan year. No additional funding was required in the 2008 calendar year for the 2007 plan year. Contributions of $13,600 were made in fiscal year 2008 for the 2008 plan year, and a final contribution of $845 is due in 2009.

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 defined benefit funding obligations to CPS Energy was $29,700 for fiscal year 2009 and $21,200 for fiscal year 2008 and was reflected as a reduction in Other Changed in Fund Net Assets on the Statements of Revenues, Expenses and Changed in Fund Net Assets.

Employees whose pension benefits exceed $230 for the 2008 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.

STPNOC approved a change to the pension plan, effective January 1, 2007, to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date will receive enhanced matching contributions under the STP Nuclear Operating Company Savings 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.

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

STP Pension Plan and Other Postretirement Benefits (Continued)

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

Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2008

	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	$ 204,650	$ 60,500
Service Cost	9,457	4,930
Interest Cost	12,758	3,708
Actuarial Loss	11,496	1,853
Effect of FAS 158 change in date	5,554	2,160
Benefits Paid	(3,000)	(2,450)
Benefit Obligation - Ending	240,915	70,701
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	158,274	11,260
Actual Return on Plan Assets	(36,626)	(2,079)
Employer Contributions	13,631	1,975
Benefits Paid	(3,000)	(2,450)
Fair Value of Plan Assets - Ending	132,279	8,706
Funded Status - Ending	(108,636)	(61,995)
Unrecognized Net Actuarial Loss	101,146	27,200
Unrecognized Prior Service Cost	7,922	(13,449)
Unrecognized Transition Obligation		307
Net Amount Recognized	432	(47,937)
Accrued Benefit Cost	$ 432	$ (47,937)
Weighted-average Assumptions:		
Discount Rate	6.0%	6.0%
Expected Return on Plan Assets	8.0%	8.0%
Rate of Compensation Increase	4.0%	4.0%

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, 2009. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2009 were $18,644.

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 $715,552, of which $211,496 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 $18,497. 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.

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; 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 raise complex issues of fact and law and, collectively, challenge the City's authority to regulate land development, including 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 SAWS.

CKW, Inc., et al. v. City of San Antonio, et al. In this case, multiple Plaintiffs claim damages for alleged inverse condemnation, takings, and "constitutional damages" due to a road-widening project. This case is related to several other cases arising out of the same project. The matter is in discovery. A dispositive motion is being prepared. The claims aggregate well over $100. This case is not yet set for trial.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional storm water detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July, 2008 resulting in a judgment against the City of approximately $2,000 and an adverse ruling to the City on Plaintiff's claim of vested development rights. The City's motion for new trial was granted. After a retrial, the Court ruled that Plaintiff does not have vested rights with respect to flood plain development, and the jury awarded approximately $600 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed.

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 struck her, causing the wheelchair to become stuck under the truck and Ms. Rosenbaum to be dragged across the parking area. Ms. Rosenbaum later died, allegedly as a result of this incident. This case was filed, discovery is on-going, and no trial date has been set. Damages in this matter are capped by the Texas Tort Claims Act at $250.

Sayani v City of San Antonio and City South Management Authority. Plaintiff contends that City and CSMA affected a taking of his property by allegedly improperly imposing zoning restrictions on his property without performing a takings analysis. Plaintiff seeks damages in loss of value to his property in an amount in excess of $250.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Chacon, et. al. v. City of San Antonio, et. al. Plaintiffs are land owners who own property in an area that had been part of a limited purpose annexation by the City. The area was deannexed in March 2008 and City South Management Authority took over responsibility for planning and zoning pursuant to state statute. Plaintiffs challenge both the City and CSMA's authority to enact and enforce zoning and planning regulations, alleging that these restrictions have devalued their property by limiting their ability to develop it. Discovery has been concluded and cross motions for summary judgment have been filed. Plaintiffs seek damages in excess of $4,000.

Galvan, et. at. v. City of San Antonio, et. al. Plaintiff filed suit for wrongful death under state and federal laws related to the death of Sergio Galvan. During the course of an arrest, decedent became violent and in response, the defendant officers used taser guns to subdue him. Decedent became unresponsive and was later pronounced dead. The trial court granted summary judgment in favor of all defendants in November 2008. Plaintiffs have appealed the judgment with respect to the defendant officers to the Fifth Circuit Court of Appeals. Briefing and oral argument has been completed. A second lawsuit was filed by different family members of the decedent, in state district court. Damages could be in excess of $250 on this death case.

Sheridan, et. al. v. City of San Antonio. Plaintiff's decedent was killed by a hit-and-run driver while walking in the 3400 Block of Green Spring Drive at Moonlit Grove. Allegedly, a City of San Antonio recycling truck was seen at that corner to do its pick-up. Plaintiff has sued the City alleging one of its recycling trucks was the vehicle that hit decedent. This case is set for trial on May 17, 2010.

Smith, et. al. v. Ybarra, et. al. Plaintiff's decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, Plaintiffs contend that paramedics did not render medical aid to decedent based on their belief that she had expired. Damages could be up to $250. This case was filed on December 16, 2009. Discovery will begin shortly.

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The Parties determined that work on portions of the contract had become impractible and further work would cease. Plaintiff sued for Breach of Contract and Violations of the Prompt Payment Act (Texas Government Code, Chapter 2251). Damages could exceed $250. This case is scheduled for trial on May 3, 2010.

Robert Biechlin v. City of San Antonio. Plaintiff was riding his bicycle on the trails at Brackenridge Park when his tire hit a depression in the trail. Plaintiff suffered head trauma. Plaintiff alleges that the depression was a premise defect that the City knew or should have known about. This case is covered by the Texas Tort Claims Act and as such damages are capped at $250. Plaintiff is an attorney in San Antonio and is claiming that his damages exceeded the cap, thus he would be entitled to the full $250. This case was filed in December 2009 and discovery is just beginning. This case has not been set for trial.

City of San Antonio v. Continental Homes. City of San Antonio sought injunctive and declaratory relief to enforce its ordinance limiting the removal of trees during development of property. The case was tired to a jury in 2006, with a verdict in favor of the City finding that the Defendant developer did illegally remove trees from the subject property. Defendant appealed and the Fourth Court reversed the trail court, and further awarded attorney's fees in an amount of approximately $150 to Defendant. The City appealed to the Supreme Court and the petition for review was denied. A motion for rehearing is pending. Damages as well as legal defense expenses may be in excess of $250.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

CDC Broad v. City of San Antonio. This case concerns a takings claims and violations of the Texas Local Government Code. Plaintiff purchased property located on the northeast corner of the intersection of Hildebrand and Broadway in San Antonio. The location had been operated for decades as a gas station, which was demolished before the sale. Plaintiff purchased the property with the intent of building a branch bank. When plaintiff applied for their building permits, they were informed that pursuant to City ordinance, that portion of Hildebrand was deemed to have an insufficient infrastructure and thus Plaintiff would have to dedicate approximately .99 acres of the property to the City to build a right turn lane from Hildebrand to Broadway. Plaintiff objected and sought a variance, which was denied. Plaintiffs complied with the request and then filed suit. Plaintiff alleges that the action of the City was a taking of private property for public purposes and further alleged that the City failed to comply with portions of the Texas Local Government Code that required the City to have a traffic engineer perform a “rough proportionality” traffic study to determine what proportion of increased traffic on the roadway would be due to Plaintiff’s development. In February 2010, Plaintiff provided an expert appraisal of the property in question, which valued the property at $570. Plaintiff is also seeking attorneys’ fees. This case is set for trial on May 23, 2010.

Rosemary Flammia v. City of San Antonio. Plaintiff is a captain with the San Antonio Police Department. She formerly held the rank of Deputy Chief. Plaintiff initially filed an EEOC complaint alleging discrimination based on gender and race based on not being appointed as Assistant Chief. She amended her complaint on several occasions based on allegations that the Police Chief was ignoring her, transferred her to oversee a different division with lesser duties and eventually demoted her to the rank of Captain. She also asserted claims of retaliation based on her prior EEOC filings. Expenses in this case, including the City’s attorney’s fees, could exceed $250.

David Ash v. City of San Antonio. Plaintiff was driving his vehicle behind a City Public Works vehicle. Plaintiff claims that the vehicle was generating large dust clouds that diminished his visibility. Plaintiff ran into the back of the truck when it stopped unexpectedly. Plaintiff claims he could not see that the truck was stopping because of the dust cloud kicked up by the truck. This case was tried to a jury September 2009, and Plaintiff was awarded damages of approximately $190. This case is currently on appeal. If the verdict is upheld, the damages, plus interest and legal expenses to the City, is likely to reach or exceed $250.

Diane Borjas et. Al. v. City of San Antonio. This case involves a serious vehicular accident that resulted in two fatalities and an incapacitating injury to a third passenger on whose behalf this lawsuit is filed. The passenger in question is a minor. The allegations in this case involve four minors who were allegedly “joy riding” at a very high rate of speed over a very bumpy road. The case against the City is based on premises liability (i.e. condition of the road). Discovery has not commenced in this case. Damages in this case are capped at $250 per person, $500 per incident. It is possible that settlement in this matter may be at the damage cap level of $250 per person.

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 rebate of $182 was accrued for the governmental activities at September 30, 2009.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

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. The Airport System's revenue is net Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. Total rental revenue on operating leases for the fiscal year-ended September 30, 2009 was $37,814. As of September 30, 2009, the leases provide for the following future minimum rentals:

Lease Revenues				
	Governmental Activities	Airport System	Parking System	Total
Fiscal year ending September 30:				
2010	$ 6,889	$ 26,602	$ 100	$ 33,591
2011	6,507	11,820	100	18,427
2012	5,643	10,882	100	16,625
2013	5,465	8,879	100	14,444
2014	5,412	4,151	100	9,663
2015-2019	15,390	16,330	500	32,220
2020-2024	6,875	7,557	500	14,932
2025-2029	3,381	5,520	200	9,101
2030-2034	1,169	1,160		2,329
2035-After	7,813			7,813
Future Minimum Lease Rentals	$ 64,544	$ 92,901	$ 1,700	$ 159,145

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 Solid Waste Management 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, 2009 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,353. This represents an increase of $317 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

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- 136 - *Amounts are expressed in thousands*

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

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. 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. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. 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 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 2009 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 $5,000 and BDA has reduced its obligation, net of annual interest, by $3,100.

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.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases

Capital Leases - CPS Energy has one capital lease arrangement for the use of computer servers, associated software and maintenance of the hardware and software. The four year lease began in fiscal year 2007 and will end in fiscal year 2011. The value of the assets acquired through capital leases at January 31, 2009, was as follows:

	January 31, 2009
Equipment	$ 2,723
Accumulated Depreciation	(2,007)
Net book value	$ 716

The future minimum lease payments and the net present value of these lease payments as of January 31, 2009, were as follows:

Year Ended January 31,	Capital Lease Payments
2010	$ 717
Total future minimum lease payments	717
Amount representing interest	(42)
Present value of minimum lease payments	$ 675

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 the sixth year of the lease. Additionally, the building lease contains an option to purchase the facility before the end of the third year of the lease. The leases for the parking lot space contain a provision for a slight escalation in the monthly payment amount in the second and third years of the lease.
As of January 31, 2009, 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
2010	$ 5,711
2011	4,836
2012	1,968
2013	485
2014	360
Total future minimum lease payments	$ 13,360

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $6,200 in fiscal year 2009. There were no contingent lease or sublease payments in fiscal year 2009.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

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 three 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 three land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

As of January 31, 2009, 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
2010	$ 2,090
2011	2,089
2012	2,089
2013	2,015
2014	1,467
Later years	3,084
Total future minimum lease payments	$ 12,834

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,500 in fiscal year 2009. Contingent lease receipts amounted to $246 for fiscal year 2009. There were no sublease receipts in fiscal year 2009.

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 by or to $725,000, which is being amortized over 381 months, or approximately 32 years. The transaction expenses and leaseback costs of $628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months, or approximately 32 years.

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 2009, the net amount recorded as income by CPS Energy was $2,800.

- 139 - Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

On January 12, 2009, the Board authorized management to explore the feasibility of early termination of the lease/leaseback agreement in order to mitigate counterparty exposure. Although preliminary discussions have been held with Exelon, they have expressed little interest in early termination of the transaction.

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 $2,900,000 at January 31, 2009. 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 $2,600,000. This amount includes provisions for wind power through December 2031, landfill power through December 2020, capacity and other power purchases through September 2009, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

On January 20, 2009, the Board approved a policy statement on sustainability. The basis of the policy is to affirm that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider. Further, the objective of sustainable energy development is to meet current needs without compromising the ability of future generations to meet their needs. A total of $5,700,000 has been committed over the next 12 years in the areas of renewable energy, energy efficiency and conservation, transition to a smart grid, compliance with state energy conservation mandates, energy research and environmental improvements.

In October 2008, CPS Energy agreed to a settlement with Calaveras Power Partners, L.P. under which CPS Energy is obligated to make a payment of $10,000 based on project milestones related to the Spruce 2 construction contract. 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.

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 $2,900,000 purchase and construction commitments amount.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

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 (ESBWR), nominally rated at 1,520 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 submitted the COLA for the Exelon Project to the NRC on September 3, 2008. On October 30, 2008, the NRC accepted, or docketed, the application for a detailed review. Exelon announced on November 24, 2008, that they intended to select an alternate technology, other than the ESBWR, for the Exelon Project, and on December 18, 2008, the NRC placed the review of Exelon's COLA on hold. Subsequently, Exelon selected the Advanced Boiling Water Reactor technology and plans to revise the COLA accordingly.

In December 2006, the Board authorized the acquisition of a site in Matagorda County, Texas, for a future power-generating complex. The complex could eventually produce 3,000 megawatts of electricity after the complex is completed. In April 2007, the Board authorized participation with Austin Energy to jointly acquire the Matagorda site. In August 2008, the project Owner's Committee decided to put the land acquisition on hold, but to continue with water acquisition. This change in the project was due to other higher priorities in the Company's Strategic Energy Plan.

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. Annual reductions to BDA's obligation are made from incremental revenues to the City for electric and gas sales made to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation are also made in accordance with contract terms for economic development at the Brooks City-Base that benefits CPS Energy's systems. 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 $5,000 and BDA has reduced its obligation, net of annual interest, by $3,100.

Save for Tomorrow Energy Program ("STEP")

During FY 2009, CPS Energy committed to spending $849,000 over the next 12 years on energy efficiency and conservation through STEP. Annually, the first $8,000 of STEP expenses will be funded through the base rate and will be reported as CPS Energy operation and maintenance ("O&M") expenses.

STEP expenses over the initial $8,000 per year will be recovered or funded through the fuel adjustment factor in the year after they are incurred and have been independently audited. These STEP recoveries will be deferred as STEP net costs recoverable through future rates in accordance with guidance provided by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. This guidance requires that certain costs be capitalized as a regulatory asset until they are recovered through future rates. As a result, there is no impact to net income from the STEP expenses over the initial $8,000.

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Note 11 Commitments and Contingencies (Continued)

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 $5,401 at December 31, 2008. 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.

During 2007, the Environmental Protection Agency Region 6 (the “EPA”) informed SAWS that the agency intended to institute an enforcement action based on reported sewer overflows related to the operation of SAWS’ wastewater treatment plants and collection system under SAWS’ Texas Pollutant Discharge Elimination System (TPDES) permits. The EPA has alledged that certain aspects of SAWS’ operations constitute violations of the Clean Water Act. SAWS is vigorously defending these claims while also pursuing settlement negotiations with EPA and the Department of Justice (DOJ). These settlement discussions may result in SAWS, EPA and DOJ entering a civil Consent Decree to resolve the EPA’s allegations. Such a Consent Decree may impose injunctive relief in the form of required capital construction projects, increased operational costs and civil penalties.

During 2008, SAWS continued settlement discussions with DOJ, which included examining a variety of proposed actions that would help prevent sewer overflows in the future. To address what SAWS believes to be the leading cause of sewer overflows, SAWS intends to expand its sewer line cleaning activities in 2009. As the settlement negotiations with DOJ continue to be in a preliminary stage, the range of cost of any injunctive relief can not be reasonably estimated.

Other

As of December 31, 2008, SAWS has various commitments relating to the production of future water supplies. A summary of these commitments is provided below. As with any estimates, the actual amounts paid could differ materially.

	2009	2010	2011	2012	2013	Thereafter
Firm purchased water obligations	$ 5,240	$ 5,425	$ 4,345	$ 4,404	$ 4,463	$ 128,027
Firm purchased water obligations (acre feet)	8	8	5	5	5	106
Variable purchased water obligations	$ 4,608	$ 3,692	$ 3,311	$ 3,243	$ 2,851	$ 68,706
Variable purchased water obligations (acre feet)	6	4	4	4	3	69
Leased water rights	$ 4,295	$ 4,016	$ 4,223	$ 3,423	$ 2,546	$ 26,738

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 11,000 acre feet of water annually during the years 2009-2037 at prices ranging from $897 to approximately $1,562 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 2000, 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 through 2010 at prices ranging from $440 - $484 per acre foot (figures in this paragraph are not in thousands).

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

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.

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 2009 and others continuing until cancelled by SAWS. In 2009, the annual cost per acre foot for water leases from the Edwards Aquifer ranges from $77 - $127 annually. In 2009, 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 $256,900 as of December 31, 2008. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Pollution Remediation Obligation

Primary Government (City)

Effective October 1, 2009, the City implemented the provisions of GASB Statement No. 49. The City has determined that the implementation of GASB 49 had no material effect on prior year financial statements, and as such did not restate beginning net asset balances.

The general nature of existing pollution that has been identified on City property is consistent with City operations of acquiring properties for infrastructure and improvement development. Under most circumstances, the triggering event most relevant to the City is the voluntary commencement of activities to clean up the pollution. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by the City's respective departments which included previous knowledge of clean-up costs, existing contracts, etc. Depending on the length of time it takes the City to remediate the pollution, costs may be different from that estimated below as a result of market rate changes, improvements to technology, etc.

The pollution remediation liability as of September 30, 2009, was $904 for Governmental Activities. Of this amount $788 met the criteria to be capitalized, and as such has been added to Construction in Progress, while the remaining $116 was expensed under the City's public works activities. These liabilities are a result of cost estimates to clean existing pollution found on land acquired by the City's Capital Improvement Management Services and Parks Departments for the construction of streets and drainage and parks, respectively.

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Note 12 Pollution Remediation Obligation (Continued)

Primary Government (City) (Continued)

The City had an additional $700 of pollution remediation liability in its Business-Type Activities and Airport System Fund as of September 30, 2009. These liabilities are a result of cost estimates to clean existing pollution found on land acquired by the Airport System for the construction of airport structures. As the City acquired this property in the early 1940's and the only thing keeping the City from cleaning up the land is funding, the liability does not meet the criteria to be capitalized. As a result, the entire $700 was expensed in both Business-Type Activities and the Airport System Fund.

The City does not foresee receiving any recoveries from third parties for the costs associated with cleaning up these pollution obligations.

CPS Energy

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for cleaning up existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to the Company is the voluntary commencement of activities to clean up pollution.

Under the Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In fiscal year 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the balance sheets within other liabilities and deferred credits. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities and deferred credits.

The pollution remediation liability was $1,000 as of January 31, 2009. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by CPS Energy's environmental staff and consultants. FY 2009 beginning balances were not restated as a result of the implementation of GASB Statement No. 49 due to immateriality.

San Antonio Water System

SAWS has been notified by the Texas Commission on Environmental Quality (TCEQ) that it would be responsible for any clean-up and remediation that may be required at a SAWS owned facility that was formerly utilized as an excess materials site for soils removed during trenching and excavation work related to SAWS water and sewer lines. Based upon SAWS preliminary assessment of the site, SAWS does not believe that potential remediation costs, if required, would be material. However, as additional assessment of the site has been requested, the range of cost of any potential additional remediation can not be reasonably estimated.

Note 13 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2009, 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.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Property and Casualty Liability (Continued)

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 years.

Workers' Compensation

As of September 30, 2009, 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 years.

Employee Health Benefits

The City offers employees and their eligible dependents a comprehensive employee benefits program including medical, dental, vision and basic and supplemental life insurance. Employees may also participate in healthcare or dependent care spending accounts through our Section 125 Cafeteria Plan. The City's health and dental programs are self-funded. 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 offers medical coverage for its retirees and their dependents. The City offers both self insured and fully insured plans to participating retirees who retire from the TMRS Pension Plan immediately following retirement from the City. Self Funded 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 self funded claims data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Unemployment Compensation Program

The Unemployment Compensation Program 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 in the City's Employee Health Benefits Insurance Fund.

Extended Sick Leave Program

The Extended Sick Leave Program 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. The Extended Sick Leave Program is currently administered out of the City's Employee Health Benefits Insurance Fund.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Employee Wellness Program

The Employee Wellness Program is designed to mitigate future health and productivity loss costs by creating awareness of health risks and providing education about healthy lifestyle choices. In 2008, the City opened the COSA Health and Wellness Center in partnership with Gonzaba Medical Group. The Center is available exclusively to provide primary and occupational medicine to active employees. Additionally, the City provides every employee and members of their household an Employee Assistance Program to assist employees with basic situational and behavioral counseling, as well as, financial counseling and legal referral services. The Employee Wellness Program is primarily managed out of the Employee Health Benefits Fund, except for a rental of facility charge still housed in the Employee Wellness Fund.

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.

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, 2009:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2008	$ 19,283	$ 152	$ 4,737	$ (4,737)	$ 19,435
Fiscal Year 2009	19,435	(938)	5,286	(5,286)	18,497
Employee Health Benefits: [1]					
Fiscal Year 2008	$ 11,968	$ (2,357)	$ 73,876	$ (73,876)	$ 9,611
Fiscal Year 2009	9,611	(957)	75,077	(75,077)	8,654
Workers' Compensation: [2]					
Fiscal Year 2008	$ 24,023	$ 524	$ 9,256	$ (9,256)	$ 24,547
Fiscal Year 2009	24,547	1,670	11,778	(11,778)	26,217

[1] FY09 the financials reflect $489 in Unemployment Claims that are not shown here.

[2] The Workers' Compensation Liability Balance of $26,217 is comprised of $23,891 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 is recorded in proprietary funds.

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Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

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 $5,300,000 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;
- $100,000 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. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed in fiscal year 2009.

The remaining balance under the property reserves column at January 31, 2009, 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 Reserves:				
Fiscal Year 2008	$ 3,738	$ (55)	$ (12)	$ 3,671
Fiscal Year 2009	3,671	(566)	-	3,105
Employee and Public Liability Claims:				
Fiscal Year 2008	$ 8,671	$ 3,663	$ (4,103)	$ 8,231
Fiscal Year 2009	8,231	6,658	(4,586)	10,303

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, a lease/leaseback transaction and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management Division.

Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

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 January 20, 2009, 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 2009, the commodity options and/or hedge instruments offset one another to achieve unrealized losses of approximately $42,900.

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, 2009:

Fuel Derivative Transactions as of January 31, 2009		
Type of Transaction	**Duration**	**Volumes in MMBTU**
Long Call	Mar 2009 - Mar 2010	930,000
Short Call	Mar 2009 - Dec 2009	6,270,000
Long Put	Mar 2009 - Dec 2009	6,270,000
Short Put	Mar 2009 - Mar 2010	930,000
Long NG Futures	Mar 2009 - Oct 2010	19,270,000
Short NG Futures	Mar 2009 - Dec 2009	850,000
Long Basis Swap	Feb 2009 - Nov 2009	4,867,500

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, 2009, the total cost of the outstanding hedge instruments was $1,200, with a fair value of ($41,700).

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. Only if expressly requested in advance may an exchange for physical assets take place.

Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

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.

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.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

At January 31, 2009, 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 2009.

Direct Investments – At January 31, 2009, there was a total of $254,300 in securities, or 35.1% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $209,900 in cash collateral and $50,100 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $4,500 in fiscal year 2009, of which 30.0% was paid as fees to the lending agent totaling $1,400.

Decommissioning Trusts – For the 28.0% Decommissioning Trust at December 31, 2008, there was a total of $20,700 in securities, or 9.5% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $21,200 in cash collateral, or a total of 102.3% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $321 in calendar year 2008, of which 30.0% was paid as fees to the lending agent totaling $96.

For the 12.0% Decommissioning Trust at December 31, 2008, there was a total of $4,400 in securities, or 5.7 % of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $3,900 in cash collateral and $535 in securities collateral, or a total of 102.3% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $65 in calendar year 2008, of which 30.0% was paid as fees to the lending agent totaling $19.

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, 2008, 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 $5,401 as of December 31, 2008, 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, 2008	$ 5,312	$ 2,276	$ (2,187)	$ 5,401	$ 5,401
Dec. 31, 2007	$ 5,803	$ 1,757	$ (2,248)	$ 5,312	$ 5,312

Amounts are expressed in thousands

Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2009:

Summary Table of Interfund Transfers
Year-Ended September 30, 2009

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System	$ 71	
Categorical Grant-In Aid		7,637
Internal Service Funds	1,773	5,835
Nonmajor Governmental Funds	11,595	70,173
Nonmajor Enterprise Fund	311	350
Total General Fund	13,750	83,995
Debt Service Funds:		
Nonmajor Governmental Funds	32,756	
Total Debt Service Funds	32,756	
Categorical Grant-In Aid:		
General Fund	7,637	
Nonmajor Governmental Funds	2,447	3,263
Nonmajor Enterprise Funds		516
Total Categorical Grant-In Aid	10,084	3,779
Airport System Fund:		
General Fund		71
Internal Service Funds		168
Nonmajor Governmental Funds		31
Total Airport System Fund		270
Internal Service Funds:		
General Fund	5,835	1,773
Airport System	168	
Internal Service Funds	1,259	1,259
Nonmajor Governmental Funds	403	411
Nonmajor Enterprise Funds	278	
Total Internal Service Funds	7,943	3,443
Nonmajor Governmental Funds:		
General Fund	70,173	11,595
Debt Service		32,756
Categorical Grant-In Aid	3,263	2,447
Airport System	31	
Internal Service Funds	411	403
Nonmajor Governmental Funds	280,371	280,371
Nonmajor Enterprise Funds	968	463
Total Nonmajor Governmental Funds	355,217	328,035
Nonmajor Enterprise Funds:		
General Fund	350	311
Categorical Grant-In Aid	516	
Internal Service Funds		278
Nonmajor Governmental Funds	463	968
Total Nonmajor Enterprise Funds	1,329	1,557
Total	$ 421,079	$ 421,079

Amounts are expressed in thousands

Note 14 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 15 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 $10,267 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 18,852
Unearned revenues previously reported as income in the fund financial statements	(8,585)
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	$ 10,267

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 $5,153 are as follows:

Compensated Absences	$ 19,790
Interest Expense	(1,771)
Principal Reduction on Long-term Payables	8,096
Net OPEB Obligation	(20,377)
Arbitrage Expense	319
Pollution Remediation	(904)
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	$ 5,153

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Amounts are expressed in thousands

Note 16 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 deficit fund balances of $10,504 in the Categorical Grant-in-Aid Fund and $979 in the Community Development Program Fund. 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 were incorporated into the City's annual budget process to be funded over five years of which the City has three years remaining to fund. Due to further research as well as funding provided through the City's annual budget process, the deficits have been reduced to $6,722 in the Categorical Grant-in Aid Fund and eliminated in the Community Development Program Fund.

Planning and Development Services Fund had a deficit fund balance of $93 as of September 30, 2009. The deficit is attributable to a decrease in new residential and commercial 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, 2009, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, and the Improvement Projects Fund in the amounts of $14,041, $4,868, and $3,910 respectively. These deficit balances are a result of timing of funding for year-end payable accruals and invoices sent to third party contributors. The funds are work effort funds, and the deficits will be addressed by transferring funds from authorized funding sources (e.g. bonds, grants and operating funds) and/or by invoicing third party contributors in fiscal year 2010 for their portion of expenditures incurred. Additionally, some expenditures were assigned for future series' sales (that were sold in March 2010) and as such funding was not available to transfer from the funding source. Debt issuances have a one-year reimbursement resolution that allows that series debt issuance to cover costs incurred prior to its sale. The City establishes debt funding for projects based on the capital budget book's appropriation/spending plans. Occasionally, projects start spending into the next year's funding. These are funded in the following fiscal year.

Note 17 Other Disclosures

Donor Restricted Endowment

The City has five Permanent Funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, the William C. Morris Endowment Fund, and the Boza Becica 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 $35 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 17 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The Carver Cultural Center Endowment Fund generated $7 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 Prudent 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 $493 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, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $5 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.

The Boza Becica Endowment Fund was established September 17, 2009. The future interest earned from the principal will be used for the acquisition of books and materials for the San Antonio Public Library in accordance with the terms and conditions of the Last Will and Testament of Boza Becica.

Note 18 Prior Period Restatement

Brooks Development Authority

Brooks Development Authority (BDA), a discretely presented component unit, recorded a prior period adjustment which decreased net assets by $200. This restatement is a result of an agreement in which BDA committed to pay SAWS $3,500 for water and wastewater upgrades. In fiscal year 2004, BDA short paid SAWS $200 on the annual installment; when the SAWS liability was recorded on the BDA books in fiscal year 2006, this short pay was not accounted for. Thus, in fiscal year 2009, the SAWS liability is increased by $200, while net assets are decreased by $200.

San Antonio Development Agency

In February of 2010, management completed an internal analysis and corrective reconciliation of certain errors that had occurred in the prior years resulting in the misstatement of land and building inventories and net assets for previous years. An adjustment for $677 has been made to restate (increase) net assets and land and building inventory as of September 30, 2008.

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Note 19 Subsequent Events

Primary Government (City)

Debt Transactions

On March 2, 2010, the City issued $156,255 in General Improvement Refunding Bonds, Series 2010 that are scheduled to be delivered on March 23, 2010 to refund certain general obligation and certificates of obligation for interest cost savings. The Bonds are payable from the proceeds of an annual ad valorem tax levied upon all taxable property located within the City, within the limitations prescribed by law. The Bonds will have maturities ranging from 2011 to 2023, with interest rates ranging from 2.0% to 5.0%.

Additionally, on March 2, 2010, the City issued $9,090 in Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010 that are scheduled to be delivered on March 31, 2010 to refund the City's Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 for interest cost savings. The Bonds are payable from annual appropriations from the City. The Bonds have maturities ranging from 2010 to 2020, with interest rates ranging from 1.0% to 3.3%.

On March 15, 2010, the City redeemed all of the outstanding Combination Tax and Revenue Certificates of Obligation, Series 2000C in the amount of $4,925 by utilizing revenues in the Tax Increment Fund for Tax Increment Reinvestment Zone ("TIRZ") No. Nine established by the City in connection with the public/private downtown revitalization project known as the Houston Street Redevelopment Project. The Certificates were issued for this project and their redemption will enable reimbursements to the Developer, Street Retail San Antonio, L.P., for expenses related to infrastructure improvements and related capital costs provided in the Development Agreement relating to the TIRZ.

On March 18, 2010, the City issued by private placement, $34,500 in Tax Notes, Series 2010 that are scheduled to be delivered on April 22, 2010. The Notes are short-term obligations secured by ad valorem taxes which are being utilized as interim financing to fund capital improvements at the San Antonio International Airport (the "Airport"). While the Notes are secured by ad valorem taxes, no property taxes will be utilized to pay debt service on these Notes because these Notes will be refunded through the issuance of Airport System Revenue Improvement Bonds and Passenger Facility Charge Bonds planned for Fall 2010 which will provide the permanent financing for the Airport expansion program as well as other planned Airport Capital improvements and will also include a restructuring of the Airport's existing debt service. The Notes have a single maturity of November 15, 2011, with an interest rate of 0.6%.

San Antonio Housing Trust Public Facility Corporation

In December 2009, under Chapter 303 of the Texas Local Government Code, the City created the San Antonio Housing Trust Public Facility Corporation (SAHTPFC). This non-profit entity will expand the City's ability to provide incentives for public/private partnerships to facilitate and finance affordable housing developments. Its board consists of five City Council members, and staff from the San Antonio Housing Trust Foundation will provide administrative support. In fiscal year 2010, the SAHTPFC will be reported as a blended component unit in the City's financials.

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2009 completed and issued in January 2010. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $254,060 as of October 1, 2008 to $275,696 and a decrease in the years to amortize the UAAL from 12.0 years to 10.4 years as a level percent of payroll.

Note 19 Subsequent Events (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

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, 2009 have been smoothed which results in the deferral of $391,486 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% or other actuarial gains.

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 its actuarial study as of October 1, 2009 completed February 11, 2010. The results of the study include a decrease in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $352,650 as of October 1, 2008 to $349,136. 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.

CPS Energy

Long-Term Debt (Excluding TECP)

On March 23, 2010, CPS Energy issued $380,000 of taxable New Series 2010A Revenue Direct Subsidy Build America Bonds (BABs). The true interest cost for this issue, which has two term bonds maturing in 2041, was 3.8%. Total bond proceeds are primarily being used to fund generation and electric distribution construction projects.

In March 2010, Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services each reaffirmed the Company's long-term bond ratings of "AA+," "Aa1" and "AA," respectively.

On July 30, 2009, CPS Energy issued $207,900 of tax-exempt New Series 2009D Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2017 to 2021, was 3.7%. On September 1, 2009, the escrowed proceeds, including the premium associated with the bonds, were used to refund $227,700 par value of the remaining 1998A bonds. This refunding transaction resulted in a net present value debt service savings of $14,800, or 6.5% of the par amount of the bonds being refunded.

The American Recovery and Reinvestment Act of 2009 provided authority for the issuance of BABs, which are issuable in calendar years 2009 and 2010, limited to new money capital expenditures, and issued as taxable bonds. The BABs also permit the issuer (or the bondholder) to receive a subsidy payment equal to 35% of the bond's interest directly from the U.S. Department of the Treasury. On June 12, 2009, CPS Energy issued $375,000 of taxable New Series 2009C Revenue Direct Subsidy BABs. The true interest cost for this issue, which has maturities that extend from 2033 to 2039, was 3.9%. Total bond proceeds are primarily being used to fund generation and electric distribution construction projects.

Note 19 Subsequent Events (Continued)

CPS Energy (Continued)

On April 28, 2009, CPS Energy established a flexible rate revolving note program ("Flexible Rate Revolving Note Placement Program") to provide additional liquidity in support of the Systems. The program allows the issuance of taxable or tax exempt notes, bearing interest at fixed or variable rates and having individual maturities of one year or less, in an aggregate principal amount at any one time outstanding not to exceed $100,000. The notes are authorized to be issued through November 1, 2028 and will be secured by an inferior lien on the Systems' Net Revenues.

On March 12, 2009, CPS Energy issued $442,000 of New Series 2009A Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2015 to 2034, was 4.9%. The bond proceeds, including the premium associated with the bonds, were used on March 13, 2009, to refund $450,000 of outstanding TECP obligations.

Tax-Exempt Commercial Paper (TECP)

As noted above, On March 13, 2009, CPS Energy refunded $450,000 of outstanding TECP obligations. Since that time, CPS Energy has reissued $350,000 of TECP. The proceeds were primarily used to fund interim capital financing needs.

Rate Increase

The City Council approved a 7.5% electric and an 8.5% gas base rate increase on February 18, 2010, which will become effective on March 1, 2010.

San Antonio Water System (SAWS)

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project was conceived to develop and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio in 2025 while firming up water supplies in the Colorado River Basin. In 2002 SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015.

Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In December 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009, and SAWS filed suit against LCRA. In September 2009, LCRA filed a plea asserting full or partial governmental immunity from suit. On February 1, 2010, the District Judge in the 200th Judicial District Court of Travis County, Texas granted LCRA's plea asserting full or partial governmental immunity from suit and dismissed the suit filed by SAWS. On February 17, 2010, SAWS filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with the Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

Note 19 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

SAWS has expensed $39,300 in study period costs through December 31, 2009. Under the terms of the 2002 Definitive Agreement with LCRA, SAWS is entitled to receive a reimbursement from LCRA of approximately one-half of those study period costs in the event the agreement is terminated by SAWS. Additionally, SAWS has a $2,700 asset on its balance sheet associated with design costs relating to the anticipated LCRA-SAWS project. If the trial court's decision stands, this asset likely has suffered a permanent, unrecoverable impairment and will be written down to zero. It is currently anticipated that any future write-off will be more than offset by the expected reimbursement of study period costs or damages awarded if SAWS' appeal is successful.

Debt Transactions

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.

On December 10, 2009, SAWS issued $12,250 City of San Antonio, Texas Water System Revenue Bonds, Series 2009A. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) 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.

On December 10, 2009, SAWS issued $102,750 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds) (the "Series 2009B Bonds"). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2009B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"). In connection with the issuance of the Series 2009B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the "Treasury") a subsidy payment equal to 35% of the taxable interest it pays on the Series 2009B Bonds (the "Tax Credit"). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2009B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2009B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2009B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2009B Bonds. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

On December 30, 2009, SAWS issued $54,300 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2009 through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 0.0% to 4.4%. 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, 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.

Note 19 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

Debt Transactions (Continued)

On December 30, 2009, SAWS issued $35,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009A (the “Junior Lien Series 2009A Bonds”) through the Texas Water Development Board. The bonds were sold under the Water Infrastructure Fund Loan Program (the “WIF”). The proceeds from the sale of the bonds were used to (i) finance the planning and design of the Brackish Groundwater Desalination Project, (ii) refund $12,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. Loans through the WIF are offered at a subsidized interest rate which is 2 percent below the Texas Water Development Boards cost of funds, with a repayment period of 20 years. In order the advance projects which have significant development lead times, a portion of the WIF is available specifically for planning and design of projects (“WIF Deferred”) which offers an additional subsidy of deferring all interest and principal payments for up to 10 years, or until the end of the construction of the project, whichever is sooner. Interest is not accrued during the deferral period and the loan is amortized over the remaining life of the bond with a maximum maturity of 20 years. The Junior Lien Series 2009A Bonds were issued under the WIF Deferred option with amortization of principal and interest to begin in 2015 with a final maturity of 2029. The interest rates range from 0.6% to 2.8%, with an overall effective rate of 1.4% taking into account the deferral period. 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 March 4, 2010, SAWS issued $59,145 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010. The proceeds from the sale of the bonds were used to (i) refund $38,130 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 (the “1999 Junior Lien Bonds”), (ii) refund $25,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A (the “1999-A Junior Lien Bonds”), and (iii) pay the cost of issuance. The refunding of the 1999 Junior Lien Bonds and 1999-A Junior Lien Bonds resulted in a reduction of SAWS’ total debt service payments over the next ten years of approximately $4,900 and SAWS obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $4,300. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on the pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Hedges

Effective June 16, 2009, the swap agreement was amended between SAWS, JPMorgan Chase & Co, and MBIA to provide for JPMorgan Chase Bank N.A. to become the swap counterparty and allow for the remaining $980 of outstanding Series 2003 Bonds to be redeemed with commercial paper notes, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA’s swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate. The synthetic fixed-rate protects against the potential of rising interest rates. At December 31, 2009 the interest rate swap serves to hedge $109,130 of commercial paper notes. Upon the maturity of the commercial paper notes, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap. There was no economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper notes are expected to closely match the debt service requirements of the refunded debt.

Comprehensive Annual Financial Report
Year-Ended September 30, 2009

City of San Antonio, Texas

Required Supplementary Information Other Than MD&A (Unaudited)

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2009
(In Thousands)

	2009			
	BUDGETED AMOUNTS		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Resources (Inflows):				
Taxes	$ 484,840	$ 484,991	$ 477,115	$ (7,876)
Licenses and Permits	8,140	8,153	7,090	(1,063)
Intergovernmental	6,092	6,092	6,030	(62)
Revenues from Utilities	298,742	298,742	275,605	(23,137)
Charges for Services	40,896	40,898	42,800	1,902
Fines and Forfeits	12,091	12,091	13,111	1,020
Investment Earnings	4,013	4,085	2,874	(1,211)
Miscellaneous	6,856	6,856	10,784	3,928
Transfers from Other Funds	14,866	13,750	13,750	
Amounts Available for Appropriation	876,536	875,658	849,159	(26,499)
Charges to Appropriations (Outflows):				
General Government	98,832	101,315	80,141	21,174
Public Safety	497,858	490,303	488,431	1,872
Public Works	12,046	12,027	12,088	(61)
Health Services	67,653	67,247	66,405	842
Sanitation	3,395	3,244	3,300	(56)
Welfare	43,594	45,807	43,937	1,870
Culture and Recreation	79,378	76,147	75,995	152
Economic Development and Opportunity	3,563	3,596	3,114	482
Transfers to Other Funds	112,676	86,413	86,413	
Total Charges to Appropriations	918,995	886,099	859,824	26,275
(Deficiency) of Resources (Under) Charges to Appropriations	(42,459)	(10,441)	(10,665)	(224)
Fund Balance Allocation	42,459	10,441		(10,441)
(Deficiency) of Resources (Under) Charges to Appropriations	$ -	$ -	$ (10,665)	$ (10,665)

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	$ 849,159
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(13,750)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 835,409
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 859,824
Differences - budget to GAAP:	
Encumbrances for supplies, equipment, and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies, equipment and services received for financial reporting purposes	(9,206)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(86,413)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 764,205

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 and Sanitation functions. However, as sufficient fund balance covered individual functional excesses they were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report
Year-Ended September 30, 2009

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
10-01-08	$ 2,096,072	$ 2,350,132	$ 254,060	89.2%	$ 243,904	104.2%
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%

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
12-31-08	$ 492,604	$ 825,180	$ 332,576	59.7%	$ 259,224	128.3%
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%

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
01-01-08	$ 1,084,569	$ 1,103,865	$ 19,296	98.3%	$ 217,018	8.9%
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)%

* 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
12-31-08	$ 63,674	$ 96,539	$ 32,865	66.0%	$ 74,448	44.1%
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%

SAN ANTONIO WATER SYSTEM - SAWSRP

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
01-01-09	$ 74,611	$ 99,144	$ 24,533	75.3%	$ 70,252	34.9%
01-01-08	73,777	81,587	15,458	90.4%	66,996	23.1%
01-01-07	66,129	73,388	15,541	90.1%	63,462	24.5%

(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
02-01-08	$ 194,876	$ 247,283	$ 52,407	78.8%	$ 217,018	24.1%
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)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-08	$ 3,734	$ 5,712	$ 1,978	65.4%	$ 185,090	1.1%
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)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-08	$ 49,098	$ 33,024	$ (16,074)	148.7%	$ 185,090	(8.7)%
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] Subsequent to the January 1, 2007 valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions

[2] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $94,200 for February 1, 2008; $97,900 for January 1, 2007; and $101,600 for January 1, 2006.

[3] 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
01-01-09	$ -	$ 342,018	$ 342,018	0.0%	$ 259,224	131.9%
01-01-06		258,428	258,428	0.0%	231,262	111.7%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-08	$ 208,384	$ 561,035	$ 352,651	37.1%	$ 226,707	155.5%
10-01-07	188,147	513,484	325,337	36.6%	213,446	152.4%
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
01-01-09	$ -	$ 297,259	$ 297,259	0.0%	$ 75,270	394.9%
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.

Federal Section

City of San Antonio, Texas

Schedule of Expenditures of Federal Awards by Grantor, Federal Program and Grant Number

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
Office on National Drug Control Policy:				
Direct Programs:				
High Intensity Drug Trafficking Area Program:				
HIDTA Initiative San Antonio 2006	07.XXX	I6PSSP700Z	26-028079	$ 43,630
HIDTA Initiative San Antonio 2007	07.XXX	I7PSSP700Z	26-028081	62,627
HIDTA Initiative San Antonio 2008	07.XXX	I8PSSP700Z	26-028082	688,823
HIDTA Initiative San Antonio 2009	07.XXX	G09SS0009A	26-02817007	1,139,570
Total Office of National Drug Control Policy				$ 1,934,650
U.S. Department of Agriculture:				
Pass Through - Texas Department of State Health Services:				
Special Supplemental Nutrition Program for Women, Infants, and Children:				
WIC 2007-2008	10.557	2008-024690-001	26-016115	$ (2,792)
WIC 2008-2009	10.557	2009-030106-001	26-016120	5,986,086
WIC 2009-2010	10.557	2010-030106-001	26-01636047	105
Total Special Supplemental Nutrition Program for Women, Infants, and Children				$ 5,983,399
Pass Through - Texas Health and Human Services Commission:				
Summer Food Service Program for Children:				
Summer Food Program 2008	10.559	75J8005	26-020004	$ 26,015
Summer Food Program 2009	10.559	75J8005	26-020005	738,925
Total Summer Food Service Program for Children				$ 764,940
Total U.S. Department of Agriculture				$ 6,748,339
U.S. Department of Defense:				
Direct Programs:				
Procurement Technical Assistance for Business Firms: *				
PTAC 2008	12.002	SP4800-04-2-036	26-032020	$ 75,477
PTAC 2009	12.002	SP4800-9-2-0886	26-032024	174,117
Total Procurement Technical Assistance for Business Firms				$ 249,594
Community Economic Adjustment: *				
Public Center Environmental Health 2003-2004	12.600	05C4TX142000000	26-032015	$ (17,976)
Public Center Environmental Health 2004-2011	12.600	PCEH FY04	26-032017	(134,196)
Public Center Environmental Health 2005-2006	12.600	PCEH FY06	26-032017	142,891
Public Center Environmental Health 2006-2007	12.600	PCEH FY07	26-032017	44,858
Public Center Environmental Health 2007-2008	12.600	PCEH FY08	26-032017	(24,367)
Public Center Environmental Health 2008-2009	12.600	BCA-KEL-01-0901	26-032022	271,072
Total Community Economic Adjustment				$ 282,282
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation:				
Office of Military Transformation 2008	12.607	RA06185-07-01	26-032000	$ 523,957
Office of Military Transformation 2009	12.607	RA06185-09-02	26-03248002	342,886
Total Community Economic Adjustment Assistance:				$ 866,843
Total U.S. Department of Defense				$ 1,398,719
U.S. Department of Housing and Urban Development:				
Direct Programs:				
Housing Counseling Assistance Program:				
Housing Counseling Program 2008	14.169	HC07-0898-071	26-054135	$ 7
Housing Counseling Program 2009	14.169	HC08-0898-077	26-054142	67,813
Total Housing Counseling Assistance Program				$ 67,820
Community Development Block Grants/Entitlement Grants: *				
Community Development Program - Multi	14.218	B93MC480508	28-099000	$ 15,516
Community Development Program - 19th Year	14.218	B93MC480508	28-019000	773,060
Community Development Program - 21st Year	14.218	B93MC480508	28-021000	14,967
Community Development Program - 22nd Year	14.218	B96MC480508	28-022000	192,877
Community Development Program - 27th Year	14.218	B01MC480508	28-027000	91,596
Community Development Program - 28th Year	14.218	B02MC480508	28-028000	108,664
Community Development Program - 29th Year	14.218	B03MC480508	28-029000	147,154
Community Development Program - 30th Year	14.218	B04MC480508	28-030000	(16,532)
Community Development Program - 31st Year	14.218	B05MC480508	28-031000	801,728
Community Development Program - 32nd Year	14.218	B06MC480508	28-032000	396,658
Community Development Program - 33rd Year	14.218	B07MC480508	28-033000	3,054,201
Community Development Program - 34th Year	14.218	B08MC480508	28-034000	12,925,725
Community Development Program - 35th Year	14.218	B09MC480508	28-035000	3,305
Total Community Development Block Grants/Entitlement Grants				$ 18,508,919
Community Development Entitlement Grants-Section 108 Loan Guarantees:				
Community Development Block Grants - Section 108 Loans	14.248	MC480508	27-040000	$ 15,693,941
Emergency Shelter Grants Program:				
ESG 2006-2008	14.231	S06MC480508	26-054129	$ 27,017
ESG 2007-2009	14.231	S07MC480508	26-054134	370,877
ESG 2008-2010	14.231	S08MC480508	26-054141	315,725
Total Emergency Shelter Grants Program				$ 713,619
Subtotal U.S. Department of Housing and Urban Development				$ 34,984,299

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development (Continued):					
Direct Programs (Continued):					
Supportive Housing Program:	*				
SHP 2005		14.235	TX59B500	26-054127	$ 5,136
SHP 2006		14.235	TX59B600	26-054132	388,786
SHP 2007		14.235	TX59B700	26-054138	4,399,218
SHP 2008		14.235	TX59B800	26-054144	287,627
Total Supportive Housing Program					$ 5,080,767
HOME Investment Partnerships Program:					
HOME Program Grant - 8th Year		14.239	M99MC480508	25-008000	$ 108,607
HOME Program Grant - 12th Year		14.239	M03MC480508	25-012000	(41,806)
HOME Program Grant - 13th Year		14.239	M04MC480508	25-013000	19,246
HOME Program Grant - 14th Year		14.239	M05MC480508	25-014000	409,084
HOME Program Grant - 15th Year		14.239	M06MC480508	25-015000	975,594
HOME Program Grant - 16th Year		14.239	M07MC480508	25-016000	3,553,408
HOME Program Grant - 17th Year		14.239	M08MC480508	25-017000	4,140,342
Total HOME Investment Partnerships Program					$ 9,164,475
Housing Opportunities for Persons with AIDS:					
HOPWA 2005-2008		14.241	TXH05F005	26-054124	$ 7,987
HOPWA 2006-2009		14.241	TXHO6F005	26-054128	(1,508)
HOPWA 2007-2010		14.241	TXH07F005	26-054133	36,056
HOPWA 2008-2011		14.241	H-08-MC-48-0508	26-054143	971,325
Total Housing Opportunities for Persons with AIDS					$ 1,013,860
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants:					
Railway Safety Classroom Building		14.251	B-08-SP-TX-0146	26-054139	$ 19,645
ARRA Homelessness Prevention & Rapid Re-Housing Program:					
ARRA Homeless Prevention & Rapid Re-Housing 2009-2012		14.257	S09-48-MY-48-0508	23-05438001	$ 6,662
Lead Hazard Reduction Demonstration Grant Program:					
Lead Hazard Reduction Demonstration 2007-2010		14.905	TXLHD0165-07	26-054137	$ 1,245,548
Total U.S. Department of Housing and Urban Development					$ 51,515,256
U.S. Department of the Interior:					
Pass Through - Texas Historical Commission:					
National Park Service Centennial Challenge:					
Survey & National Register Nominations 2008-2009		15.406	TX-08-038	26-00680002	$ 10,000
Total U.S. Department of the Interior					$ 10,000
U.S. Department of Justice:					
Pass-Through - Office of the Governor, Criminal Justice Division:					
Juvenile Accountability Block Grants:		16.523	JB05J201330108	26-055332	$ 8,567
JABG START 2006-2007					
Crime Victim Assistance:					
Project EASE 2009		16.575	VA08V301621107	26-055341	$ 13,935
Edward Byrne Memorial Justice Assistance Grant Program:					
TRU Special Initiative Grant 2008-2009		16.738	JB05J201330108	26-055342	$ 551,033
Direct Programs:					
Edward Byrne Memorial Formula Grant Program:					
JAG 2007-2011		16.579	2007F4223TXDJ	26-028084	$ 219,772
JAG 2008-2012		16.579	2008F7723TXDJ	26-02817002	31
Total Edward Byrne Memorial Formula Grant Program					$ 219,803
Bulletproof Vest Partnership Program:					
Ballistic Vest Acquisition Program		16.607	09BOBX08045082	26-028086	$ 19,792
Public Safety Partnership and Community Policing Grants:					
Cops Technology Program Grant		16.710	2007CKWX0055	28-028087	$ 2,432,692
Methamphetamine Grant 2004		16.710	2004CKWX0402	26-028076	9,611
Total Public Safety Partnership and Community Policing Grants					$ 2,442,303
ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government:					
ARRA JAG Local 2009	*	16.804	2009-SB-B9-2934	23-02817002	$ 2,106,525
Federal Confiscated Property:					
Federal Account		16.XXX	N/A	29-039000	$ 526,013
HIDTA - Federal Account		16.XXX	N/A	29-046000	418,196
Total Federal Confiscated Property					$ 944,209
Total U.S. Department of Justice					$ 6,306,167

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Labor:				
Direct Program:				
ARRA Employee Benefits Security Administration Program:				
ARRA Cobra Subsidy	17.151	N/A	23-00910000	$ 19,097
Total U.S. Department of Labor				$ 19,097
U.S. Department of Transportation:				
Direct Programs:				
Airport Improvement Program: *				
Sky Place Drainage 53-07	20.106	34801925307	26-058099	$ 1,740,727
Sky Place Drainage 57-08	20.106	34801925708	26-058104	734,495
Residential Acoustical Program 54-07	20.106	34801925407	26-058101	6,084,132
Residential Acoustical Program 51-06	20.106	34801925106	26-058083	755,199
Residential Acoustical Program 56-08	20.106	34801925608	26-058083	1,508,133
Airfield Pavement Repairs 57-08	20.106	34801925808	26-058105	15,322
Runway 3-21 Extension 5708	20.106	34801925708	26-058104	22,500
Runway 3-21 Extension 5808	20.106	34801925808	26-058105	254,708
Terminal Area Forecast 52-06	20.106	348019252006	26-058090	45,743
Taxiway R Extension 52-06	20.106	348019252006	26-058090	270,070
Taxiway R Extension 53-07	20.106	348019253007	26-058097	164,279
Taxiway R Extension 60-09	20.106	348019262009	26-05833035	619,898
Runway Safety Action Team 52-06	20.106	348019252006	26-058096	357,925
Runway Safety Action Team 53-07	20.106	348019253007	26-058096	1,304,616
Master Plan 60-09	20.106	348019262009	26-05833036	341,651
Total Airport Improvement Program				$ 14,219,398
Pass Through - Texas Department of Transportation:				
Recreational Trails Program:				
MPO Hike and Bike 2008-2009	20.219	NONE	26-059217	$ 27,428
Capital Assistance Program for Elderly Persons and Persons with Disabilities:				
Elderly & Persons with Disabilities	20.513	51715F7163	26-059220	$ 32,640
Alcohol Impaired Driving Countermeasures Incentive Grants I:				
DWI Step Program 2007-2008	20.601	588EGF6101	26-056062	$ 40,212
DWI Step Program 2008-2009	20.601	2009-S-SYG-0157	26-059221	781,840
Click It Or Ticket 2008	20.601	588XXF6056	26-05917005	136,813
Total Alcohol Impaired Driving Countermeasures Incentive Grants I:				$ 958,865
Total U.S. Department of Transportation				$ 15,238,331
U.S. Department of the Treasury				
Direct Program:				
Taxpayer Service:				
Volunteer Income Tax Assistance	21.003	V90324	26-00938001	$ 119,000
Total U.S. Department of the Treasury				$ 119,000
Institute of Museum and Library Services:				
Pass Through - Texas State Library and Archives Commission:				
Grants to States:				
Interlibrary Loan Services 2008-2009	45.310	N/A	26-018142	$ 302,271
Interlibrary Loan Services 2009-2010	45.310	N/A	26-01804009	17,097
Library System Operation 2008-2009	45.310	N/A	26-018140	357,055
Library System Operation 2009-2010	45.310	N/A	26-01804009	22,720
Tech Assist Negotiated Grant 2008-2009	45.310	N/A	26-018141	65,935
Tech Assist Negotiated Grant 2009-2010	45.310	N/A	26-01804009	6,178
Total Institute of Museum and Library Services				$ 771,256
U.S. Department of Energy:				
Direct Program:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance:				
Solar San Antonio 2015 DOE 2008	81.117	DE-FC36-08G018097	26-014000	$ 71,733
Total U.S. Department of Energy				$ 71,733
U.S. Department of Education:				
Pass Through - Texas Education Agency:				
Adult Education - Basic Grants to State:				
English Literacy/Civics Education 2007-2008	84.002	SASA31708	26-041007	$ (795)
English Literacy/Civics Education 2008-2009	84.002	SASA31709	26-041008	81,800
English Literacy/Civics Education 2009-2010	84.002	SASA31710	26-04138003	23,766
Total Adult Education - Basic Grants to State				$ 104,771
Total U.S. Department of Education				$ 104,771

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
National Archives and Records Administration:				
Direct Program:				
National Historical Publications and Records Grants:				
Archival Records Program	89.003	NAR07RA1000907	26-019001	$ 36,847
National Archives and Records Administration				$ 36,847
U.S. Department of Health and Human Services:				
Pass Through - Alamo Area Council of Governments:				
Aging Cluster:				
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers:				
SSEP Supportive Service for Elderly 2007-2008	93.044	COSA 08 SST	26-011079	$ 94,721
SSEP Supportive Service for Elderly 2008-2009	93.044	COSA 09 SST	26-011080	258,273
Total Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers:				$ 352,994
Special Program for the Aging - Title III, Part C - Nutrition Services:				
CNP 2007-2008	93.045	N/A	26-011078	$ 308,539
CNP 2008-2009	93.045	N/A	26-011081	2,029,779
Total Special Program for the Aging - Title III, Part C - Nutrition Services				$ 2,338,318
Total Aging Cluster				$ 2,691,312
Pass Through-Texas Department of State Health Services:				
Public Health Emergency Preparedness:				
Bio-Terrorism Preparation 2009-2010	93.069	2009-032264-001	26-01636035	$ 177,972
Bio-Terrorism Preparation Lab 2009-2010	93.069	2009-032166-001	26-01636034	15,905
Cities Readiness Initiative 2009-2010	93.069	2009-031762-001	26-01636033	33,561
Public Health Emergency Response 2010	93.069	2010-033620-001	26-01636046	4,869
Total Public Health Emergency Preparedness				$ 232,307
Project Grants and Cooperative Agreements for Tuberculosis Control Programs:				
Special T.B. Team Project 2008	93.116	2008-0253	26-016082	$ 106,894
Special T.B. Team Project 2009	93.116	2009-030588-001	26-01636027	250,909
Total Tuberculosis Control Program				$ 357,803
Family Planning Services:				
Title XX Family Planning Project 2004-2005	93.217	7460020708A 2005	26-016067	$ (215)
Title X Male Health 2007-2008	93.217	2008-024194-001	26-016080	(2,867)
Inner City Immunizations 2008	93.217	2008-023615-001	26-016116	(31,701)
Inner City Immunizations 2009	93.217	2009-028718-001	26-016120	520,474
Total Family Planning Services				$ 485,691
Occupational Safety and Health Program:				
Childhood Lead Poisoning 2006-2007	93.262	7460020708D2007	26-016070	$ 97,657
EPI-Blood Lead Surveillance 2009-2010	93.262	7460020708D2007	26-01636003	21,281
Total Occupational Safety and Health Program				$ 118,938
Immunization Grants:				
Immunization Program 317 - 2008	93.268	2H231P62251206	26-022127	$ 483,884
Immunization Program 317 - 2009	93.268	5H23IP622512-07	26-022129	1,221,053
VFC Immunization Program 2008	93.268	2H231P62251206	26-022127	149,251
VFC Immunization Program 2009	93.268	5H23IP622512-07	26-022129	372,344
Immunization Branches - Local 2010	93.268	2010-031805-001	26-01636037	43,081
Total Immunization Grants				$ 2,269,613
Center for Disease Control and Prevention - Investigations and Technical Assistance:				
Bio-Terrorism Preparation 2005-2007	93.283	7460020708 2006	26-016110	$ (63,176)
Bio-Terrorism Preparation 2007-2008	93.283	2008-022935-001	26-016078	7,652
Bio-Terrorism Preparation 2008-2009	93.283	2008-028021-001	26-016120	849,530
Bio-Terrorism Preparation Lab 2005-2007	93.283	7460020708 2006	26-016110	(7,485)
Bio-Terrorism Preparation Lab 2007-2008	93.283	2008-022966-001	26-016075	95
Bio-Terrorism Preparation Lab 2008-2009	93.283	2008-028002-001	26-016120	200,628
Bio-Terrorism Discretionary Fund Project	93.283	2009-031326	26-01636032	80,059
Cities Readiness Initiative 2007-2008	93.283	2008-023015-001	26-016077	(1,201)
Cities Readiness Initiative 2008-2009	93.283	2008-028010-001	26-016120	252,095
DHHS ATSDR Enviroment Health & Wellness	93.283	1H75EH000374-01	26-022113	214,878
Steps to a Healthier US 2007-2008	93.283	5U58DP624463-04	26-022126	2,179
Steps to a Healthier US 2008-2009	93.283	5U58DP624469-05	26-022128	968,497
Worksite Wellness 2008-2009	93.283	2009-031517	26-016086	29,295
Worksite Wellness 2009-2010	93.283	2009-031517	26-02238006	12,698
Total Center for Disease Control and Prevention - Investigations and Technical Assistance				$ 2,545,744
National Bioterrorism Hospital Preparedness Program:				
Laboratory Response Network	93.889	2009-032144-001	26-01636036	$ 60
Pass Through - Texas Department of Housing and Community Affairs:				
Community Services Block Grant:				
CSBG - 2007	93.569	2007-4.19	26-060000	$ 573
CSBG - 2008	93.569	2008-4.20	26-060081	818,649
CSBG - 2009	93.569	2009-4.21	26-060082	1,459,014
Total Community Services Block Grant				$ 2,278,236
Subtotal U.S. Department of Health and Human Services				$ 10,979,704

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services (Continued):					
Pass Through - Alamo Workforce Development, Inc.:					
Child Care and Development Fund Cluster:					
Child Care and Development Block Grant:	*				
CCDS - 2007-2008		93.575	CCDS2003001	26-039021	$ 830,328
CCDS - 2008-2009		93.575	CCDS2003001	26-039022	1,255,991
Total Child Care and Development Block Grant					$ 2,086,319
ARRA Child Care and Development Block Grant:	*				
ARRA Child Care and Development Services		93.713	CCS2008001	23-01738001	$ 36,339
Total Child Care and Development Block Grant					$ 2,122,658
Child Care Mandatory and Matching Funds of the Child Care and Development Fund:	*				
CCDS - 2005-2006		93.596	CCDS2003001	26-039018	$ (1,661)
CCDS - 2006-2007		93.596	CCDS2003001	26-039019	580
CCDS - 2007-2008		93.596	CCDS2003001	26-039021	971,580
CCDS - 2008-2009		93.596	CCDS2003001	26-039022	44,520,019
Total Child Care Mandatory and Matching Funds of the Child Care and Development Fund					$ 45,490,518
Total Child Care and Development Fund Cluster					$ 47,613,176
Direct Programs:					
Head Start:	*				
Head Start Program 2007		93.600	06CH0107/29	26-022120	$ 70
Head Start Program 2008		93.600	06CH0107/30	26-022125	13,864,301
Head Start Program 2009		93.600	06CH0107/31	26-022131	30,438,108
Total Head Start Program					$ 44,302,479
Assets for Independence Demonstration Program:					
Families Save 2 IDA		93.602	90E10135/01	26-022095	$ (23,202)
Families Save 3 IDA		93.602	90E10308/01	26-022107	249,494
Families Save 4 IDA		93.602	90EI033/01	26-022130	58
Total Assets for Independence Demonstration Program					$ 226,350
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs:					
Breast/Cervical Cancer Control 2005-2006		93.919	7460020708A 200	26-016110	(144)
Breast/Cervical Cancer Control 2006-2007		93.919	2006-020051-001	26-016074	144
Breast/Cervical Cancer Control 2007-2008		93.919	2007-022868-001	26-016074	$ 9,270
Total Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs					$ 9,270
Healthy Start Initiative:					
Healthy Start Initiative 2007-2008		93.926	5H49MC001010700	26-022124	$ 1,222
Healthy Start Initiative 2008-2009		93.926	H49MC00101B0	26-022001	674,640
Total Healthy Start Initiative:					$ 675,862
Pass Through - Texas Department of State Health Services:					
Human Immunodeficiency Virus (HIV)/Acquired Immunodefiency Virus Syndrome (AIDS) Surveillance:					
AIDS Surveillance Program 2008		93.944	2008-025453-001	26-016117	$ 69,847
T.B. Prevention and Control 2007-2008		93.944	2008-024476-001	26-016116	(1,649)
Total Human Immunodeficiency Virus (HIV)/Acquired Immunodefiency Virus Syndrome (AIDS) Surveillance					$ 68,198
Preventative Health Services - Sexually Transmitted Diseases Control Grants:					
STD Staff Support 2007-2008		93.977	2008-025436-001	26-016117	$ 101,438
STD Staff Support 2008-2009		93.977	2009-030618-001	26-016121	396,017
Total Preventative Health Services - Sexually Transmitted Diseases Control Grants					$ 497,455
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems:					
Diabetes Services		93.988	2008-025347-001	26-016117	$ 28,711
Communities Diabetes Program		93.988	2009-031053	26-016125	17,821
Total Cooperative Agreements for State-Based Diabetes - Control Programs and Evaluation of Surveillance Systems					$ 46,532
Subtotal U.S. Department of Health and Human Services					$ 93,439,322

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
Year-Ended September 30, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services (Continued):				
Pass Through - Texas Department of State Health Services (Continued):				
Preventive Health and Health Services Block Grant:				
RLSS - Local Public Health (Triple O) 2008-2009	93.991	2009-028477-001	26-016120	$ 248,916
RLSS - Local Public Health (Triple O) 2009-2010	93.991	2010-032895-001	26-01636041	21,636
Total Preventive Health and Health Services Block Grant				$ 270,552
Maternal and Child Health Services Block Grant to the States:				
Family Health Core PH Population Based 2007-2008	93.994	2008-022987-001	26-016076	$ (7,127)
Family Health Core PH Population Based 2008-2009	93.994	2009-029093-001	26-016120	138,360
Title V Maternal and Child Health 2006-2007	93.994	2007-020438-001	26-016108	8,093
Title V CHS - Prenatal Services 2007-2008	93.994	2008-024106-001	26-016115	(8,093)
Title V CHS - Dental Services 2007-2008	93.994	2008-024172-001	26-016115	(7,365)
Title V CHS - Dental Services 2008-2009	93.994	2009-029839-001	26-01636025	53,649
Total Maternal and Child Health Services Block Grant to the States				$ 177,517
Total U.S. Department of Health and Human Services				$ 104,867,095
U.S. Department of Homeland Security:				
Direct Programs:				
Disaster Grants - Public Assistance (Presidentially Declared Disaster):				
Tornado Dolly - Steve Street	97.036	N/A	26-056058	$ (194)
Assistance to Firefighters Grant:				
Assistance to Firefighters Grant 2006	97.044	EMW2006FG05971	26-056065	$ 47,468
National Explosives Detection Canine Team Program:				
Airport K9 Grant 2009	97.072	HSTS0208HCAN448	26-065330	$ 256,394
Law Enforcement Officer Reimbursement Agreement Program:				
Airport CCTV System	97.090	HSTSO206ACTO301	26-065022	$ 400,000
Airport Checkpoint Grant 2009	97.090	HSTS0208HSLR129	26-065331	367,767
Total Law Enforcement Officer Reimbursement Agreement Program				$ 767,767
ARRA TSA Airport Checked Baggage Inspection System Program				
ARRA Electronic Baggage System Program	97.117	HSTS0409HCT1234	23-06533001	$ 955,183
Pass Through - Office of the Governor:				
Disaster Grants - Public Assistance (Presidentially Declared Disaster):				
Hurricane Gustav	97.036	N/A	26-056071	$ 2,684
Hurricane Ike	97.036	N/A	26-056072	416,905
Hurricane Katrina Project	97.036	N/A	26-056058	5,406
Total Disaster Grants - Public Assistance (Pass Through)				$ 424,995
Homeland Security Cluster:				
Emergency Management Performance Grants:				
EMPG 2008	97.042	08-TX-EMPG-0632	26-065333	$ 156,648
Urban Areas Security Initiative:				
UASI 2006	97.008	2006-GET60068	26-065019	$ 356,621
UASI 2007	97.008	07-GA 65000-09	26-065026	1,943,540
UASI 2008	97.008	08-SR 65000-05	26-065333	20,154
Total Urban Areas Security Initiative				$ 2,320,315
Metropolitan Medical Response System:				
Metro Medical Response System 2004-2006	97.071	06-SR-65000-01	26-065005	$ 19,625
Metro Medical Response System 2006	97.071	07-GA 65000-09	26-065018	19,187
Metro Medical Response System 2007	97.071	2006-GE-76-0068	26-065026	118,708
Total Metropolitan Medical Response System				$ 157,520
State Homeland Security Program:				
SHSP 2007	97.073	07-GA 65000-09	26-065026	$ 199,595
Law Enforcement Terrorism Prevention Program (LETPP):				
Law Enforcement Terrorism Prevention 2006	97.074	2006 GA65000-04	26-065021	$ 8,741
Law Enforcement Terrorism Prevention 2007	97.074	07-GA 65000-09	26-065026	330,806
Total Law Enforcement Terrorism Prevention Program (LETPP)				$ 339,547
Total Homeland Security Cluster				$ 3,173,625
Pass Through City of Houston:				
Disaster Grants - Public Assistance (Presidentially Declared Disaster):				
Hurricane Ike - Houston Deployment	97.036	N/A	N/A	$ 177,705
Total U.S. Department of Homeland Security				$ 5,802,943
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 194,944,204

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

1. The accompanying schedule of expenditures of federal awards includes the federal 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

2. In March 1998, the City of San Antonio accepted a Housing and Urban Development (HUD) Section 108 award in an amount up to $38,700,000 which authorized a loan transaction with the Greater Kelly Development Corporation, now known as Port San Antonio (Port) to fund certain improvements in real property to be leased at KellyUSA. As of September 30, 2009, the City has made third party loans to the Port in the amount of $20,000,000. The construction portion of this program terminated March 2003 and currently, the only activity is the loan repayment account. This loan program contains no continuing compliance requirements.

3. In September 2004, City Council authorized the submission of a $57,000,000 HUD 108 loan application to HUD, which was received August 2006. Proceeds of the loan have been utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities. As of September 30 2009, $35,506,299 has been expended. Funds are required to be fully expended by December 1, 2011.

4. In fiscal year 2009, the City provided federal awards to subrecipients as follows:

Program Titles	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	2,515,446
Emergency Shelter Grants Program	14.231	291,346
Supportive Housing Program	14.235	3,658,066
HOME Investment Partnerships Program	14.239	4,183,008
Housing Opportunities for Persons with AIDS	14.241	1,013,648
Justice Assistance Grant	16.804	2,106,525
Steps to a Healthier US	93.283	652,026
Child Care and Development Block Grant	93.596	591,144
Head Start	93.600	42,469,441
Total		$ 57,480,650

5. As of September 30, 2009, the City had HOME Program Notes Receivable of $3,339,753. These are loans that are made for renovation or construction of apartment complexes that provide rental to low income people. Some loans are forgivable provided the program and loan criteria are met.

6. As of September 30, 2009, the City had CDBG Program Notes Receivable of $668,753. These are rental rehabilitation loans. Some loans are forgivable provided the program and loan criteria are met.

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

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 31, 2010. Our report was modified to include a reference to 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. 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 67%, 71% and 0%, 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 express no such opinion.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2009-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the City's internal control over financial reporting. We did not identify any deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 31, 2010.

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 31, 2010

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 OMB Circular A-133

Report of Independent Certified Public Accountants on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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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 *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City's major federal 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 federal 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.

The City's basic financial statements include the operations of the Port Authority of San Antonio, San Antonio Water System, Brooks Development Authority and San Antonio Local Development Company, Inc., which expended $17,661,987 in federal awards which is not included in the schedule during the year ended September 30, 2009. Our audit, described below, did not include the operations of the Port Authority of San Antonio, San Antonio Water System, Brooks Development Authority and San Antonio Local Development Company, Inc., because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 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 federal 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.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-02 and 2009-04 through 2009-06.

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 federal 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 federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, we express no such opinion.

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 on a timely basis with a type of compliance requirement of a federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-02, 2009-03 and 2009-05 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 federal program will not be prevented or detected..

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the City's internal control over compliance. We did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses, as defined above.

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs 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, 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 31, 2010

City of San Antonio, Texas

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs
Federal Grants
Year-Ended September 30, 2009

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness (es) identified?	____ Yes __X__ 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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	____ Yes __X__ 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
Any audit findings disclosed that are required to be reported in accordance with section 501 (a) of Circular A-133?	__X__ Yes ____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
12.002	Procurement Technical Assistance for Business Firms
12.600	Community Economic Adjustment
14.218	Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
16.804	ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments
20.106	Airport Improvement Program
93.575, ARRA-93.713, 93.596	Child Care and Development Fund Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	____ Yes __X__ No

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

SECTION II – FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS

Finding: 2009-01
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. We believe that some of the contributing factors to the deficiencies mentioned include the continued need for well-defined accounting policies and adherence by departments to the policies and procedures that have been established as well as a continued focus on review procedures. Specific matters noted through the course of our audit include the following:

1. Capital Assets- During testing of construction-in progress(CIP) ,we noted two projects with a cost of $2.2 million that were completed and had not been communicated to Finance to appropriately account for the assets being placed into service and calculating the related depreciation expense. In addition, there were negative balances in the capital asset subledger that resulted in overstated accumulated depreciation and related expense as well as other various depreciation matters resulting in understated expense, resulting in a net impact of $200 thousand overstatement.
2. Cost of Issuance and Premium/Discount Amortization- the City modified its amortization schedules during the year to properly calculate the amortization of premiums/discounts and issuance costs, however, formula errors were discovered in the calculations, causing differences in amortization expense and unamortized balances of approximately $288 thousand as of year end.
3. Reclassification of negative cash balances- Per review of the cash reconciliations, we noted a bank account with a negative cash balance as of year-end that were not linked to other accounts with legal right of offset. This negative cash balance of $884 thousand was not reclassified to a liability at year end.
4. Overstated revenue- During testing it was noted that certain revenue/expense balances were overstated due to revenue from Alamo Community College District (ACCD) being recorded based on cumulative balances presented on the ACCD invoices versus current fiscal year balances, resulting in an adjustment of approximately $1.7 million.
5. Accounts Receivable detail review - During testing of accounts receivable, it was noted that the Customer A/R detail of the General Fund included multiple duplicate invoices.
6. Car Rental Fees- Revenues reported in car rental sales reports in the Aviation Fund are not reconciled to amounts in SAP, which resulted in the overstatement of general ledger balances by $346 thousand for Car Rental Revenue and Receivables.

Cause:
We feel that some of the contributing factors to the deficiencies mentioned include the need for an improved review process and a need for on-going training in the accounting division with the Finance Department and the fiscal divisions throughout the City.

Effect:
The City had to adjust balances for Construction in Progress, assets in service, and expenses associated with capital assets; alter its calculations of unamortized cost of issuance and premiums and associated amortization; reclass negative cash to accounts payable; reduce revenues, expenditures and adjust associated receivable balances based on errors in the City's initial calculations and presentation.

Recommendation:
We recognize as it relates to capital assets and effective interest calculations, the City implemented certain corrective actions to address previously identified issues. We further recognize that over the past several

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

years, the City has made significant strides in improving the internal control environment of the City. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the continued establishment of written and executed policies and procedures at all levels. Furthermore, we recommend that the City continue to provide 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.

Views of responsible officials and planned corrective actions:
Finance continues to create, revise and refine policies and procedures related to recording transactions throughout the year and for year-end reporting purposes. In addition to developing and revising Administrative Directives 8.12, General Accounting Requirements and Timelines, and 8.9, Financial Management of Capital Projects, procedures for calculating and reporting cost of issuance and premium/discount amortization were prepared within Central Finance. The errors noted above were clerical in nature and will be corrected through further reviews performed by section managers and administrators within Finance. Finance will additionally provide training and refresher sessions for staff and department fiscal managers on year-end reporting transactions and requirements to assist in eliminating these errors in the future.

Implementation Date
September 30, 2010

Responsible Person
Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding: 2009-02
Subrecipient Monitoring
CFDA #14.218 - Community Development Block Grants/Entitlement Grants
Award year - 2008/2009
Award number - Various
Federal agency - U.S. Department of Housing and Urban Development
Pass-through entity - N/A
Type of finding - Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
The HUD guidelines regarding subrecipient monitoring state that, “monitoring should not be a ‘one-time event’. Monitoring should involve an on-going process of planning, implementation, communication, and follow-up.” This includes a clear written record of the monitoring steps followed and the information reviewed.

Furthermore, the CDBG regulations (24 CFR 570.501(b)) state that:

> [the grantee] is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of . . . subrecipients . . . does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements . . . and for taking appropriate action when performance problems arise…

Additionally, the language in Subpart J of 24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” which applies to CDBG grants, is even more explicit about the grantee’s obligation to monitor subrecipients:

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

> Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor . . . sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

These regulations make clear that the primary mission is to make sure subrecipients comply with all regulations governing their financial, administrative, and programmatic operations; and achieve their performance objectives on schedule and within budget.

Condition:
During the review of subrecipient files, it was noted that certain subrecipient files did not have documentation of a compliance monitoring report or documentation of on-going monitoring for the fiscal year tested.

Questioned Costs:
Not applicable

Context:
It was noted that out of the 16 subrecipient files reviewed, five did not have documentation of on-going monitoring for the fiscal year tested and two of the five did not have documentation of a compliance monitoring report.

Effect:
The City's lack of supporting documentation of subrecipient requirements causes the City to be in noncompliance of specific grant conditions required by the federal granting agency, which could potentially lead to loss or return of funding.

Cause:
Failure to maintain sufficient subrecipient files.

Recommendation:
We recommend that the City maintain sufficient subrecipient files to ensure that subrecipient monitoring requirements are met.

Views of responsible officials and planned corrective actions:
Grants Monitoring and Administration is working on new policies and procedures, which will include the subrecipient checklist presented in Administrative Directive 8.10, Financial Management of Grants, that will require at least one site visit and desk review with additional auditing depending on the findings from these two reviews. We may review more depending on performance from the agencies. A monitoring schedule, which includes current fiscal year projects, was developed in November 2009. In addition, the Fiscal Monitoring division is currently developing templates to ensure a uniform standard for the review of documentation.

Implementation Date
September 30, 2010

Responsible Person
Nina Nixon-Mendez, Interim Grants Administrator
Grants Monitoring and Administration

Finding: 2009-03
Special Tests and Provisions: Rent Assessment
CFDA #14.235 - Supportive Housing Program
Award year - 2008/2009
Award number - Various

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

Federal agency - U.S. Department of Housing and Urban Development
Pass-through entity - N/A
Type of finding - Significant Deficiency

Criteria or Specific Requirement:
The Supportive Housing Program (SHP) allows grantees to charge participant rent under specific guidelines in 24 CFR 583.315. Rent collected from participants is considered program income. Nothing in the McKinney-Vento Act or its implementing regulations requires program participants to pay rent or occupancy charges for participation in the project. However, when the grantee or project sponsor does decide to charge the program participant, Section 426(d) of the McKinney-Vento Act and 24 CFR 583.315 set the maximum that may be charged. For those grantee or project sponsors who decide to charge rent, HUD provides, on its website, a SHP Self-Monitoring Tools worksheet for use in determining the maximum resident rent under the program.

Condition:
The City charges participant rent in the Dwyer Permanent Housing Woodhill Project and uses the HUD provided resident rent calculation worksheet to determine rent charges. It was noted that rent charges were improperly determined

Questioned Costs:
Not applicable

Context:
For three of the 25 participants assessed rent at Dwyer Permanent Housing Woodhill Project during FY 2009 the amount of rent was calculated incorrectly.

Cause:
Improper training resulting in errors in the proper use of the resident rent calculation worksheet. These errors included the improper input of annual income information and/or the failure to clear the worksheet prior to subsequent use.

Effect:
In all three instances where the rent charges were determined incorrectly, participants were charged a lesser amount than would have been assessed had the proper amount been determined. Based on the participant enrolled date in the program through September 30, 2009, the calculated loss in program income totaled $7,198.

Recommendation:
We recommend the City strengthen internal controls over employee training in specific job functions and place greater emphasis on supervisory review of work performed.

Views of responsible officials and planned corrective actions:
The Department of Community Initiatives developed and implemented a procedure that addresses the appropriate use of templates and employee responsibilities regarding the rental calculation worksheet. Staff have been trained and acknowledged the receipt of training. The supervisor reviews the accuracy of the work performed and verifies the accuracy of the rent calculation worksheets.

Implementation Date
March 31, 2010

Responsible Person
Cindy Schoenmakers, Interim Director
Department of Community Initiatives

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

Finding: 2009-04
Special Tests and Provisions: ARRA Funding
CFDA #16.804 – ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
Award year – 2009
Award number – 2009-SB-B9-2934
Federal agency – U.S. Department of Justice
Pass-through entity - N/A
Type of finding - Control Deficiency and Noncompliance

Criteria or Specific Requirement:
According to Title 2 CFR Subpart D Sec. 176.210, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described below. This information is needed to allow the recipient to properly monitor subrecipient expenditure of American Reinvestment and Recovery Act (ARRA) funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."
As mentioned above, Title 2 CFR Subpart B Sec. 176.210, "recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133." This process includes furnishing the required information described above related to ARRA funds and requiring subrecipients to appropriately identify ARRA funds on their SEFA to properly monitor subrecipient expenditure of ARRA funds.
Condition:
It was noted that the subrecipients were not informed to record and report funds separately to properly identify ARRA funds on their SEFA and SF-SAC nor were they provided the CFDA number for ARRA funds.

Questioned Costs:
Not applicable

Context:
The required information related to the ARRA requirements was not provided to the 5 subrecipients of this program.

Effect:
The City's lack of compliance to inform the subrecipients of ARRA funding requirements causes the City to be in noncompliance of specific grant conditions required by the federal granting agency, which could potentially lead to loss or return of funding.

Cause:
Lack of knowledge by the department of ARRA special requirements.

Recommendation:
We recommend that the City comply with ARRA funding requirements and inform the subrecipients of the requirements to ensure that audit requirements are met.

Views of responsible officials and planned corrective actions:
Interlocal agreements were established with all subrecipient agencies as part of the grant application submission. The agreements did not contain ARRA guidelines. The agencies were advised of the ARRA reporting guidelines, but the specific SEFA reporting requirement was not clearly understood and was not communicated to the subrecipients. SAPD will send a written communication to each agency detailing the SEFA reporting requirements and the CFDA number.

Implementation Date
April 30, 2010

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

Responsible Person
William McManus, Chief of Police
Police Department

Finding: 2009-05
Davis-Bacon
CFDA #20.106 - Airport Improvement Program
Award year - Multi-year
Award number - Various
Federal agency - U.S. Department of Transportation
Pass-through entity - N/A
Type of finding - Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
Title 29 CFR 5.6 (a) (3), states that the contracting agency is responsible for conducting "investigations" which shall include interviews with employees, which shall be taken in confidence, and examinations of payroll data and evidence of registration and certification with respect to apprenticeship and training plans.

Condition:
The City performs site visits to evaluate contractor compliance with Davis-Bacon guidelines. During testing it was noted that the City was not performing site visits for construction contracts. It is our understanding that the City's Labor Compliance Office (CLCO) performs risk assessments to determine whether site visits are necessary for a particular construction contract. However, there was no documentation of the risk assessment to support not performing a site visit.

Questioned Costs:
Not applicable

Context:
From the review of the Davis-Bacon contracts occurring during fiscal year-end September 30, 2009, we found that four Davis-Bacon contracts occurred during the period. One out of the four files reviewed did not have evidence of any site visits being performed during the year nor was there evidence that a risk assessment was performed.

Effect:
The City's lack of documenting risk assessments and/or consistency in performing site visits may cause the City to fail to discover noncompliance by contractors, which could potentially lead to loss or return of funding.

Cause:
Lack of staffing for most of the fiscal year 2009.

Recommendation:
We recommend that the City perform site visits on an annual basis as outlined in the City's prior year response and maintain evidence of this monitoring in the files to ensure Davis-Bacon requirements are met or maintain adequate written documentation of the risk assessments performed to determine the need for site visits.

Views of responsible officials and planned corrective actions:
Title 29 CFR 5.6 (a) (3) states that investigations shall include interviews with employees, which shall be taken in confidence, and examinations of payroll data and evidence of registration and certification with respect to apprenticeship and training plans. It also states that investigations shall be made with such frequency as may be necessary to assure compliance. For the single referenced Davis-Bacon contract for which site visits were not performed, compliance was assured through the City's monitoring of certified payrolls which occurred on a weekly basis. Therefore, the City was in compliance with 29 CFR 5.6 (a) (3) requirements.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

The CLCO determines whether factors exist that would warrant investigation beyond a review of certified payrolls. Additionally, documentation of the risk assessment to support not performing a site visit is not consistent with the CLCO objective. Rather, risk assessment documentation is maintained for those contracts that exhibit risk factors that would warrant further investigation. This approach is effective in assisting the CLCO in informing contractors why further investigations were warranted for a particular contract. Going forward CLCO will document on the certified payrolls reviewed whether or not additional reviews are needed due to changes in the contractor's risk assessment status as determined by CLCO.

Implementation Date
April 30, 2010

Responsible Persons
Frank Miller, Director
Aviation Department

Michael S. Frisbie, Director
Capital Improvements Management Services

Finding: 2009-06
Special Tests and Provisions: ARRA Funding
CFDA #93.575, 93.956, 93.713 - Child Care and Development Fund Cluster
Award year - 2009
Award number - CCS2008001
Federal agency - U.S. Department of Health and Human Services
Pass-through entity - Alamo Workforce Development, Inc.
Type of finding - Control Deficiency and Noncompliance

Criteria or Specific Requirement:
According to Title 2 CFR Subpart D Sec. 176.210, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described below. This information is needed to allow the recipient to properly monitor subrecipient expenditure of American Reinvestment and Recovery Act (ARRA) funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."
As mentioned above, Title 2 CFR Subpart B Sec. 176.210, "recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133." This process includes furnishing the required information described above related to ARRA funds and requiring subrecipients to appropriately identify ARRA funds on their SEFA to properly monitor subrecipient expenditure of ARRA funds.

Condition:
It was noted that the subrecipient was not informed to record and report funds separately and to properly identify ARRA funds on their SEFA and SF-SAC.

Questioned Costs:
Not applicable

Context:
The required information related to the ARRA requirements was not provided for the one subrecipient of this program.

Effect:
The City's lack of compliance to inform subrecipient of ARRA funding requirements causes the City to be in noncompliance of specific required grant conditions, which could potentially lead to loss or return of funding.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2009

Cause:
The City believed the language in the existing contract was sufficient to meet this new requirement.
Recommendation:
We recommend that the City establish the appropriate procedures to ensure that ARRA requirements are appropriately communicated to the subrecipient either through a contract or separate communications.

Views of responsible officials and planned corrective actions:
The Department of Community Initiatives did include within the subrecipient's contract notification that these are ARRA funds and they must be tracked separately and reported per their funding source. The Department of Community Initiatives will notify each of its delegate agencies receiving ARRA funding of the requirements and regulations imposed by the government in relation to the dollars received from the Recovery Act through written communication.

Implementation Date
April 30, 2010

Responsible Person
Cindy Schoenmakers, Interim Director
Department of Community Initiatives

City of San Antonio, Texas

Status of Prior Year Findings

Federal

Finding: 2008-01
Airport Operations
Type of Finding – Material Weakness

Condition:
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.

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.

Status:
Completed

Airport management in conjunction with Finance has worked on updating policies and procedures related to financial operations and reporting of Airport functions. Airport divisions have met and worked on communication among them in order to ensure that airport leases are properly being entered, managed and adjusted as needed in SAP. Furthermore, processes were created to perform annual reviews of actual revenues/collections against year-end accruals in order to determine the accuracy of those accruals and whether any adjustments were needed.

Aviation revenue contracts were converted to SAP in June 2009 and Aviation began to bill directly out of SAP in September 2009. As part of the conversion, Aviation reviewed leases in place and ensured that the information input into SAP was in agreement with the existing lease contract before the conversion was considered complete and billings began.

Responsible Persons
Frank Miller, Director
Aviation Department

Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

Finding: 2008-02
Administration and Management of User Access
Type of Finding - Significant Deficiency

Condition:
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).

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.

Status:
In Process

The City has adopted new administrative directives [City's policies and procedures] that provide guidance and management of user access. Administrative Directive 7.8D addresses issues associated with Account Access Management, while Administrative Directive 7.8E focuses on User Account Management. Both administrative directives were adopted in July 2009. These along with technology solutions provide for better administration and management of user access. In December 2009, the City purchased password management software to reinforce and enhance the overall security position for user access. The City has an ongoing comprehensive project to address the needs of Sensitive Information by creating a "secure sensitive information" compartment inside the data center to be used for the processing of sensitive information.

ITSD has also developed processes to ensure that terminated employees' access rights are disabled in a timely fashion, but for this to be effective it is necessary that employee termination actions be completed in the City's HR system as soon as they occur, because ITSD uses the change in status to begin the account termination process. ITSD management will continue to work with HR management to reinforce the existing processes and procedures to ensure prompt notification to ITSD when an employee is terminated.

Responsible Persons
Richard Varn, Chief Information Officer
City Manager's Office

Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

Finding: 2008-03
Review and Oversight
Type of Finding – Significant Deficiency

Condition:
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.

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.

Status:
In process

For capital assets, a new administrative directive, AD8.7 Financial Management of Capital Assets and Tracked Property, scheduled for release in Summer 2010 has been drafted to standardize accounting and associated procedures for recording of assets from their acquisition/placed in service date through their disposition. Citywide training on these new procedures is anticipated to be done at the same time as the administrative directive is released. The City's Finance Department additionally shifted job duties of financial reporting staff in order to allow staff to have more time to focus on capital asset transactions and accounting within the City's system of record, SAP; and to allow the Financial Reporting Manager the ability to better review the work and assessments preformed by said staff.

A new general accounting administrative directive, AD8.12 General Accounting Requirements and Timelines, has also been drafted and is scheduled for release in Summer 2010. One of the key areas discussed in this administrative directive is revenue and expenditure cut off procedures. The administrative directive provides a timeline for City departments to post the receipt of goods and services received before the close of its fiscal year. It also sets a threshold for which department fiscal, accounts payable and general ledger personnel review invoices and/or package slips, etc. received after the fiscal year-end to determine whether those documents were for costs associated with the previous fiscal year and whether those costs were properly reported in that fiscal year; or whether a prior year-end accrual entry would be needed. The City incorporated these procedures in its FY 2009 year-end training, but will perform additional citywide training on these new procedures before release of the directive.

The City's Finance Department has been working with its external auditors during FY 2009 on calculating and recording the City's debt advance refunding balances. The City provided the auditors with a summary of how calculations are run as well as several examples to review and approve before the City recorded its FY 2009 year-end closing entries. Finance management and staff held numerous meetings reviewing our schedules and calculations prior to the arrival of the auditors. Staff additionally documented accounting policies associated with the debt advance refunding and related effective interest calculations for new bond issuances to provide a basis for calculating said transactions in the future. Further training will be provided to all staff impacted by this requirement in FY 2010.

The last issue dealt with the accrued leave calculation. The negative leave items that were reported in past reports have been fully corrected in FY 2009. Procedures were drafted and followed for FY 2009 without incident.

Responsible Person
Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding: 2008-04
Davis-Bacon
CFDA #14.218 – Community Development Block Grants/ Entitlement Grants
Award year – 2007/2008
Award number – Various
Federal agency – U.S. Department of Housing and Urban Development
Pass-through entity – N/A
Type of finding – Significant Deficiency and Noncompliance

Condition:
The City performs site visits to evaluate contractor compliance. It was noted that the City was not consistently performing site visits or reviewing certified payrolls for construction contracts.

Recommendations:
We recommend that the City perform site visits and review certified payrolls on a consistent basis and maintain evidence of this monitoring in the files to ensure Davis-Bacon requirements are met.

Status:
In Process

Title 29 CFR 5.6 (a) (3) states that investigations shall include interviews with employees, which shall be taken in confidence, and examinations of payroll data and evidence of registration and certification with respect to apprenticeship and training plans. It also states that investigations shall be made with such frequency as may be necessary to assure compliance. For the single referenced Davis-Bacon contract for which site visits were not performed, compliance was assured through the City's monitoring of certified payrolls which occurred on a weekly basis. Therefore, the City was in compliance with 29 CFR 5.6 (a) (3) requirements.

The CLCO determines whether factors exist that would warrant investigation beyond a review of certified payrolls. Additionally, documentation of the risk assessment to support not performing a site visit is not consistent with the CLCO objective. Rather, risk assessment documentation is maintained for those contracts that exhibit risk factors that would warrant further investigation. This approach is effective in assisting the CLCO in informing contractors why further investigations were warranted for a particular contract. Going forward CLCO will document on the certified payrolls reviewed whether or not additional reviews are needed due to changes in the contractor's risk assessment status as determined by CLCO.

Responsible Persons
Nina Nixon-Mendez, Interim Grants Administrator
Grants Monitoring and Administration

Mike Frisbie, Director
Capital Improvements Management Services

<u>Finding: 2008-05</u>
Procurement
CFDA #14.218 - Community Development Block Grants/ Entitlement Grants
Award year – 2007/2008
Award number – Various
Federal agency - U.S. Department of Housing and Urban Development
Pass-through entity – N/A
Type of finding - Significant Deficiency and Noncompliance

Condition:
During our review of the procurement process, we noted that the City was not notifying unsuccessful bidders as required.

Recommendations:
We recommend that the City reevaluate their post award procedure for procurement to ensure that the procurement process includes the notification to unsuccessful bidders and to ensure all elements of the notification are met.

Status:
Corrected

Consistent with the Corrective Action Plan previously submitted in the Single Audit Report for fiscal year 2008, the following procedures have been implemented and were effective as of June 25, 2009:

Prior to the date a Council item is submitted into the Request for Council Action (RFCA) workflow, contract officers send each respondent a notification letter via certified mail, fax confirmation, or email. These letters identify the tentative date that City Council will consider the contract award. Various elements included in this letter are whether or not their firm will be recommended for award; name and contact information of the Department Director; reminder on the communication restrictions as outlined in the solicitation document; and, timeline and instructions for requesting a review of the solicitation and evaluation process.

Copies of these notification letters are maintained electronically in each project file stored in SharePoint. Letters to unsuccessful respondents are sent out after City Council awards the construction contract to the lower most responsible bidder.

<u>Responsible Person</u>
Nina Nixon-Mendez, Interim Grants Administrator
Grants Monitoring and Administration

<u>Finding: 2008-06</u>
Davis-Bacon
CFDA #20.106 – Airport Improvement Program
Award year - Multi-year
Award number - Various
Federal agency - U.S. Department of Transportation
Pass-through entity – N/A
Type of finding – Significant Deficiency and Noncompliance

Condition:
The City performs site visits to evaluate contractor compliance. It was noted that the City was not consistently performing site visits or reviewing certified payrolls for construction contracts.

Recommendations:
We recommend that the City perform site visits on a consistent basis and maintain evidence in the files to ensure Davis Bacon requirements are met.

Status:
In Process

Title 29 CFR 5.6 (a) (3) states that investigations shall include interviews with employees, which shall be taken in confidence, and examinations of payroll data and evidence of registration and certification with respect to apprenticeship and training plans. It also states that investigations shall be made with such frequency as may be necessary to assure compliance. For the single referenced Davis-Bacon contract for which site visits were not performed, compliance was assured through the City's monitoring of certified payrolls which occurred on a weekly basis. Therefore, the City was in compliance with 29 CFR 5.6 (a) (3) requirements.

The CLCO determines whether factors exist that would warrant investigation beyond a review of certified payrolls. Additionally, documentation of the risk assessment to support not performing a site visit is not consistent with the CLCO objective. Rather, risk assessment documentation is maintained for those contracts that exhibit risk factors that would warrant further investigation. This approach is effective in assisting the CLCO in informing contractors why further investigations were warranted for a particular contract. Going forward CLCO will document on the certified payrolls reviewed whether or not additional reviews are needed due to changes in the contractor's risk assessment status as determined by CLCO.

Responsible Persons
Frank Miller, Director
Aviation Department

Michael S. Frisbie, Director
Capital Improvements Management Services

Finding: 2008-07
Cash Management
CFDA #12.600 – Community Economic Adjustment
Award year – Multi-year
Award number – Various
Federal agency – U.S. Department of Defense
Pass-through entity - N/A
Type of finding - Significant Deficiency

Condition:
The monthly Request for Reimbursement packages for two months were not reviewed and approved by the Fiscal Planning Manager, as dictated by departmental policy, prior to submission to the Air Force for reimbursement.

Recommendations:
We recommend that the City of San Antonio strengthen internal controls to ensure that the Fiscal Planning Manager review and approve cost reimbursement packages prior to submission to the Air Force for reimbursement.

Status:
Corrected

Procedures were implemented on October 1, 2008, in which the Fiscal Planning Manager will sign all reimbursement packages. In her absence, the Assistant Director or the Grants Management Officer will approve in her place.

Responsible Person
Dr. Fernando Guerra, Director
Health Department

<u>Finding: 2008-08</u>
Subrecipient Monitoring
CFDA #14.235 - Supportive Housing Program
Award year - 2007/2008
Award number - Various
Federal agency - U.S. Department of Housing and Urban Development
Pass-through entity - N/A
Type of finding - Control Deficiency and Noncompliance

Condition:
Fiscal monitoring not performed in accordance with existing directive.

Recommendations:
The City should strengthen internal controls over subrecipient monitoring to ensure that all fiscal monitoring visits are completed in accordance with City guidelines.

Status:
Corrected

The Department of Community Initiatives is following fiscal's internal review schedule and all reviews were completed within the required timeframes.

<u>Responsible Person</u>
Cindy Schoenmakers, Interim Director
Community Initiatives Department

<u>Finding: 2008-09</u>
Subrecipient Monitoring
CFDA #14.235 - Supportive Housing Program
Award year - 2007/2008
Award number - Various
Federal agency - U.S. Department of Housing and Urban Development
Pass-through entity - N/A
Type of finding - Significant Deficiency

Condition:
No documentation existed in the subrecipient delegate agencies' files supporting matching requirements as required pursuant to the grant award. There were no established practice nor procedures in effect for assuring that the matching requirement had been, in fact, met prior to the City of San Antonio certifying and submitting the annual progress report.

Recommendations:
The City should strengthen internal controls over subrecipient monitoring to include practices and procedures for assuring that provisions of contracts or grant agreements with delegate agencies relative to matching requirements are complied with.

Status:
Corrected

The Department of Community Initiatives developed a policy and implemented a procedure that defines the documentation required from delegate agencies that demonstrates the delegate agency has met their match requirement. Reporting of match is ongoing and is completed prior to the submittal of the annual progress report.

<u>Responsible Person</u>
Cindy Schoenmakers, Interim Director
Community Initiatives Department

City of San Antonio, Texas

State Section

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, 2009

STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM		GRANT NUMBER	CITY NUMBER	STATE EXPENDITURES
Texas Commission on Environmental Quality:				
Direct Programs:				
Air Monitors:				
Air Monitoring 2006-2008		582-7-72672	26-008045	$ 1,881
Air Monitoring 2008-2009		582-7-72672	26-008057	86,105
Air Monitoring 2009-2010		582-10-86408	26-00836004	15,794
Air Monitors Lake Calaveras 2005-2006		582-6-72649	26-008040	(202)
Air Monitors Lake Calaveras 2008-2009		582-6-72649	26-008058	36,326
Air Monitors Lake Calaveras 2009-2010		582-6-72649	26-00836003	941
Air Monitoring in SA TCEQ PM 2.5 2007-2008		582-8-72698	26-008052	(452)
Air Monitoring in SA TCEQ PM 2.5 2008-2009		582-8-72698	26-008056	207,516
Air Monitoring in SA TCEQ PM 2.5 2009-2010		582-8-72698	26-00836001	3,978
Total Air Monitors				$ 351,887
Texas Emission Reduction Plan:				
Texas Emission Reduction Plan 2007		582-7-708100333	26-008055	$ 180,731
Pass Through - Alamo Area Council of Governments:				
Recycling and Green Waste Education Program:	*			
Recycling and Green Waste Education Program FY 2008		08-18-G09	26-008054	$ 204,448
Recycling and Green Waste Education Program FY 2009		09-18-G03	26-008060	118,725
Total Recycling and Green Waste Education Program				$ 323,173
Bitters Household Hazardous Waste Drop Off Site 2008	*	09-18-G06	26-00855004	$ 335,429
Total Texas Commission on Environmental Quality				$ 1,191,220
Texas State Library and Archives Commission:				
Direct Program:				
Lone Star Libraries Grant 2009		442-09440	26-018143	$ 182,959
Total Texas State Library and Archives Commission				$ 182,959
Texas Commission on the Arts:				
Direct Program:				
TCA Subgranting Grant 2008-2009		09-30270	26-005140	$ 31,348
Total Texas Commission on the Arts				$ 31,348
Texas Historical Commission:				
Direct Program:				
Main/Military Plazas Historic District		TX-08-021-E-0	26-00680001	$ 9,000
Total Texas Historical Commission				$ 9,000
Texas Department of State Health Services:				
Direct Programs:				
Health Services/Education Program:				
Health Services/Education Program 2006-2007		7460020708A 2007	26-016109	$ (100)
HIV Surveillance Program:				
HIV Surveillance Program 2009		2009-030573-001	26-022129	$ 136,413
HIV Surveillance Program 2010		2010-031766-001	26-01636038	16,166
Total HIV Surveillance Program				$ 152,579
Infectious Disease Program:				
Infectious Disease 2009		2009-030831-001	26-016120	$ 6,148
Milk Sample Lab Tests:				
Milk Sample Lab Tests 2008-2009		2009-028486-001	26-016120	$ 41,683
Milk Group - 2009		2009-030981-001	26-016089	8,395
Total Milk Sample Lab Tests				$ 50,078
STRAC Grant Project:				
STRAC Grant Project FY 2008		N/A	26-016119	$ 29,140
STRAC Grant Project FY 2009		N/A	26-01620002	2,053
Total STRAC Grant Project				$ 31,193
Subtotal Texas Department of State Health Services				$ 239,898

* Major Program

See accompanying Notes to the Schedule of Expenditures of State Awards

Schedule of Expenditures of State Awards
Year-Ended September 30, 2009

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	$ 242,492
TB Prevention and Control 2009-2010		2010-032851-001	26-01636044	9,762
Total TB Prevention and Control				$ 252,254
Title V Family Planning:				
Title V FFS-Family Planning 2006-2007		2007-020438-002	26-016109	23,644
Title V FFS-Family Planning 2007-2008		2008-023755-001	26-016116	(23,644)
Total Title V Family Planning:				$ -
Tobacco Prevention and Control Grant:	*			
Tobacco Prevention and Control		2008-025614-001	26-016360	$ (3,282)
Tobacco Community Coalition 2009		2009-029454-001	26-016120	1,191,899
Tobacco Community Coalition 2010		2010-032777-001	26-01636043	10,071
Total Tobacco Prevention and Control Grant				$ 1,198,688
Total Texas Department of State Health Services				$ 1,690,840
Texas Department of Transportation:				
Direct Program:				
Regional Auto Crimes Team:	*			
Regional Auto Crimes Team 2008-2009		SAT041006309	26-031018	$ 922,932
Regional Auto Crimes Team 2009-2010		SAT041006310	26-03117001	72,945
Total Texas Department of Transportation				$ 995,877
Texas Department of Housing and Community Affairs:				
Direct Program:				
National Foreclosure Mitigation Counseling 2009		N/A	26-06038004	$ 37
Total Texas Department of Housing and Community Affairs				$ 37
Office of the Governor:				
Direct Program:				
Emergency Management Events from the Division of Emergency Management:				
Tropical Storm Edouard		N/A	26-056070	(308)
Hurricane Gustav		N/A	26-056071	895
Hurricane Ike		N/A	26-056072	138,968
Total Emergency Management Events from the Division of Emergency Management				$ 139,555
Pass Through the City of Houston:				
Emergency Management Events from the Division of Emergency Management:				
Hurricane Ike - Houston Deployment		N/A	26-056072	$ 59,235
Total Office of the Governor				$ 198,790
Texas Attorney General's Office:				
Direct Program:				
State Confiscated Property:	*			
New State Account		N/A	29-038000	$ 333,960
Vice Seizures		N/A	29-040000	327,248
Salvage Reduction/Program Seizures		N/A	29-042000	5,355
HIDTA-DPS Seizures		N/A	29-044000	1,877
Total Texas Attorney General's Office				$ 668,440
TOTAL EXPENDITURES OF STATE AWARDS				$ 4,968,511

* 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, 2009

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 2009, there were no state awards provided to subrecipients.

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*

Audit • Tax • Advisory

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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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 31, 2010. Our report was modified to include a reference to 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. 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 67%, 71% and 0%, 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 express no such opinion.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2009-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the City's internal control over financial reporting. We did not identify any deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 31, 2010.

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, 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 31, 2010

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, 2009. 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 as established by the American Institute of Certified Public Accountants; 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 item 2009-03 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding subrecipient monitoring that is applicable to its Tobacco Community Coalition program. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirement applicable to this program.

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, 2009. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with *State of Texas Single Audit Circular* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-05

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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 as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, we express no such opinion.

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 on a timely basis with a type of compliance requirement of a state program. A significant deficiency is a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-04 through 2009-05 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.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the City's internal control over compliance. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-02 and 2009-03 to be material weaknesses.

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs 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 31, 2010

City of San Antonio, Texas

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs
State Grants
Year-Ended September 30, 2009

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes __X__ 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 Tobacco Prevention and Control Grant, 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:
08-18-G09, 09-18-G03	Recycling and Green Waste Education Program
09-18-G06	Bitters Household Hazardous Waste Drop Off Site 2008
2008-025614-001,2009-029454-001, 2010-032777-001	Tobacco Prevention and Control Grant
SAT041006309,SAT041006310	Regional Auto Crimes Team
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, 2009

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding: 2009-01
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. We believe that some of the contributing factors to the deficiencies mentioned include the continued need for well-defined accounting policies and adherence by departments to the policies and procedures that have been established as well as a continued focus on review procedures. Specific matters noted through the course of our audit include the following:

1. Capital Assets- During testing of construction-in progress(CIP) ,we noted two projects with a cost of $2.2 million that were completed and had not been communicated to Finance to appropriately account for the assets being placed into service and calculating the related depreciation expense. In addition, there were negative balances in the capital asset subledger that resulted in overstated accumulated depreciation and related expense as well as other various depreciation matters resulting in understated expense, resulting in a net impact of $200 thousand overstatement.
2. Cost of Issuance and Premium/Discount Amortization- the City modified its amortization schedules during the year to properly calculate the amortization of premiums/discounts and issuance costs, however, formula errors were discovered in the calculations, causing differences in amortization expense and unamortized balances of approximately $288 thousand as of year end.
3. Reclassification of negative cash balances- Per review of the cash reconciliations, we noted a bank account with a negative cash balance as of year-end that were not linked to other accounts with legal right of offset. This negative cash balance of $884 thousand was not reclassified to a liability at year end.
4. Overstated revenue- During testing it was noted that certain revenue/expense balances were overstated due to revenue from Alamo Community College District (ACCD) being recorded based on cumulative balances presented on the ACCD invoices versus current fiscal year balances, resulting in an adjustment of approximately $1.7 million.
5. Accounts Receivable detail review - During testing of accounts receivable, it was noted that the Customer A/R detail of the General Fund included multiple duplicate invoices.
6. Car Rental Fees- Revenues reported in car rental sales reports in the Aviation Fund are not reconciled to amounts in SAP, which resulted in the overstatement of general ledger balances by $346 thousand for Car Rental Revenue and Receivables.

Cause:
We feel that some of the contributing factors to the deficiencies mentioned include the need for an improved review process and a need for on-going training in the accounting division with the Finance Department and the fiscal divisions throughout the City.

Effect:
The City had to adjust balances for Construction in Progress, assets in service, and expenses associated with capital assets; alter its calculations of unamortized cost of issuance and premiums and associated amortization; reclass negative cash to accounts payable; reduce revenues, expenditures and adjust associated receivable balances based on errors in the City's initial calculations and presentation.

Recommendation:
We recognize as it relates to capital assets and effective interest calculations, the City implemented certain corrective actions to address previously identified issues. We further recognize that over the past several years, the City has made significant strides in improving the internal control environment of the City. As the

Schedule of Findings and Questioned Costs

State Grants - Continued

Year-Ended September 30, 2009

City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the continued establishment of written and executed policies and procedures at all levels. Furthermore, we recommend that the City continue to provide 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.

Views of responsible officials and planned corrective actions:
Finance continues to create, revise and refine policies and procedures related to recording transactions throughout the year and for year-end reporting purposes. In addition to developing and revising Administrative Directives 8.12, General Accounting Requirements and Timelines, and 8.9, Financial Management of Capital Projects, procedures for calculating and reporting cost of issuance and premium/discount amortization were prepared within Central Finance. The errors noted above were clerical in nature and will be corrected through further reviews performed by section managers and administrators within Finance. Finance will additionally provide training and refresher sessions for staff and department fiscal managers on year-end reporting transactions and requirements to assist in eliminating these errors in the future.

Implementation Date
September 30, 2010

Responsible Person
Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS

Finding: 2009-02
Allowable Costs, Cash Management, and Matching
Tobacco Prevention and Control
Award year - 2009
Award number - 2009-029454-001
State agency - Texas Department of State Health Services
Pass-through entity - N/A
Type of finding - Material Weakness

Criteria or Specific Requirement:
As required by the State of Texas Uniform Grant Management Standards:

Internal control pertaining to the compliance requirements for ***state*** programs (Internal control over ***state*** programs)" means a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives for ***state*** programs:

(1) Transactions are properly recorded and accounted for to:

(i) Permit the preparation of reliable financial statements and ***state*** reports;

(ii) Maintain accountability over assets; and

(iii) Demonstrate compliance with laws, regulations, and other compliance requirements;

Condition:

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2009

It was noted that there is a lack of knowledge by program staff regarding which source documents should be maintained to properly and efficiently maintain program accounting records. Most of the documentation was obtained subsequent to the fiscal year-end during the testing of these areas at the auditor's request.

Questioned Costs:
Not applicable

Context:
For 12 of the 25 expenditure files judgmentally selected for review, twelve cash management files judgmentally selected for review, and three of nine in-kind matches judgmentally selected for review the City did not retain supporting documentation

Effect:
The City's lack of knowledge by program staff on maintaining adequate source documents to support accounting records could cause the City to be in noncompliance with specific required grant conditions which could potentially lead to loss or return of funding if unable to be supported.

Cause:
Failure to maintain sufficient source documents to support accounting records.

Recommendation:
We recommend that the City retain sufficient source documents to support accounting records to ensure that audit requirements are met. Additionally, we recommend adequate training is provided to new program personnel so that they are familiar with the overall grants management process.

Views of responsible officials and planned corrective actions:
SAMHD agrees that on the expenditure files reviewed, it would be difficult to connect certain amounts on the invoice to specific items of documentation if the reviewer is not familiar with the tobacco program. SAMHD staff is very familiar with the reimbursement requests and can easily identify allowable expenses. To provide more efficient audit trail, effective immediately we will require our subrecipients to include reference numbers or footnotes, where charges will have a reference to a specific page or location in the attached documentation.

SAMHD maintains this information at the Tobacco program staff offices. The disbursement information (in accounting) includes the SAP general ledger reports, the FSR, the request for reimbursement, and a copy of the voucher. All other support documentation is maintained by the program staff and made available when requested.

SAMHD agrees that the support documentation for the Tobacco in-kind match was not adequate. SAMHD developed a new form to track and report all in-kind transactions that will require a certification by the subricipients and SAMHD staff.

Implementation Date
February 28, 2010

Responsible Person
Dr. Fernando Guerra, Director
San Antonio Metropolitan Health Department

Finding: 2009-03
Subrecipient Monitoring
Tobacco Prevention and Control
Award year - 2009
Award number - 2009-029454-001

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2009

State agency – Texas Department of State Health Services
Pass-through entity – N/A
Type of finding – Material Weakness and Material Noncompliance

Criteria or Specific Requirement:
The Health and Human Service (HHS) guidelines regarding subrecipient monitoring state that, "monitoring should not be a 'one-time event'. Monitoring should involve an on-going process of planning, implementation, communication, and follow-up." This includes a clear written record of the monitoring steps followed and the information reviewed.

Furthermore, HHS Grants Policy states that:

> Recipients are responsible for managing the day-to-day operations of grant-supported activities using their established controls and policies, as long as they are consistent with HHS requirements. ….This active monitoring is accomplished through review of reports and correspondence from the recipient, audit reports, site visits, and other information available…

Additionally, the language in OMB Circular A-110, Subpart C, Section .51 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," which applies to HHS grants, is even more explicit about the grantee's obligation to monitor subrecipients:

> Recipients are responsible for managing and monitoring each project, program, sub award, function or activity supported by the award. **Recipients shall monitor sub awards to ensure subrecipients have met the audit requirements…**

Condition:
It was noted that there was no compliance monitoring performed for subrecipients.

Questioned Costs:
None

Context:
For all six subrecipient files judgmentally selected for review there was no compliance monitoring or on-going monitoring performed for the fiscal year tested.

Cause:
Unfamiliar with program management requirements.

Effect:
The City's lack of monitoring for subrecipient requirements causes the City to be in noncompliance with specific grant conditions required by the state agencies, which could potentially lead to loss or return of funding.

Recommendation:
We recommend that the City perform and document monitoring of subrecipients to include site visits, review of audit reports, monitoring of program activity, and review of assessment reports to ensure that subrecipient monitoring requirements are met.

Views of responsible officials and planned corrective actions:
SAMHD Tobacco program staff are working with the Fiscal Operations division to develop approved forms to document monitoring visits. The tobacco team is also in constant contact with our contractors because they are partners with us in the Tobacco Coalition Project. We consistently have collected sign-in sheets and minutes for these meetings, but have not placed them in the contract files nor identified them as being specific to a particular contractor. Since this issue has arisen, and the present year contracts became fully

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2009

executed in December 2009 and January 2010, we have instituted a regular procedure using the new forms. Initial agency certification monitoring visits have been held with all of our contractors as of February 19, 2010.

Implementation Date
February 28, 2010

Responsible Person
Dr. Fernando Guerra, Director
San Antonio Metropolitan Health Department

Finding: 2009-04
Performance Reporting
Tobacco Prevention and Control
Award year - 2009
Award number - 2009-029454-001
State agency - Texas Department of State Health Services
Pass-through entity - N/A
Type of finding - Significant Deficiency

Criteria or Specific Requirement:
As required by the State of Texas Uniform Grant Management Standards:

"Internal control pertaining to the compliance requirements for ***state*** programs (Internal control over ***state*** programs)" means a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives for ***state*** programs:

(1) Transactions are properly recorded and accounted for to:

(i) Permit the preparation of reliable financial statements and ***state*** reports;

Condition:
It was noted that performance reports are not reviewed and approved by a program manager or director to ensure accuracy and completeness of data and information included in the reports.

Questioned Costs:
Not applicable

Context:
From the review of the performance reporting process, it was noted that reports are not reviewed and approved by a Program Manager or Director. Reports are prepared, reviewed and entered by the Senior Management Analyst.

Cause:
Failure of staff to follow all requirements for the reporting process.

Effect:
The City's lack of reviewing and approving performance reports by management may cause the City to be in noncompliance with specific required grant conditions, which could potentially lead to loss or return of funding.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2009

Recommendation:
We recommend that the City reevaluate their post-award procedures for performance reporting to ensure that the reporting process includes review and approval by a program manager or director and to ensure all elements of the performance reporting process are met.

Views of responsible officials and planned corrective actions:
DSHS requires by the 15th of each month SAMHD's Behavioral Health Integrated Provider System (BHIPS) performance measures are entered into an online database. Information used to populate this database comes from monthly reports submitted by the contractors that is then entered into an excel sheet tracking all of the contractor's measures. The Program Manager and assigned tobacco staff review the worksheet. Performance measures were/are also discussed at sub-committee meetings with contractors and coalition members. At the meetings, it is determined which categories will be acceptable for each measure in the BHIPS reports. Both the Program Manager and the tobacco staff lead these meetings. Internally, the Program Manager and tobacco staff discusses which categories to measure. When needed, this discussion is in collaboration with DSHS and SAHMD's evaluator, who determines the success of activities for each measure.

There is no official signature to sign off on the performance measures. To rectify this issue the Program Manager will sign off on reviewing the performance measures prior to submission to DSHS.

Implementation Date
April 1, 2010
Responsible Person
Dr. Fernando Guerra, Director
San Antonio Metropolitan Health Department

Finding: 2009-05
Allowable Costs
Regional Auto Crimes Team
Award year - 2008-2009
Award number - SAT041006309
State agency - Texas Department of Transportation
Pass-through entity - N/A
Type of finding - Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
The Texas Automobile and Burglary Theft Prevention Authority (ATBPA) requires all salaries and professional fees be related to the operation and management of the Regional Auto Crimes Program (ReACT.)

Condition:
It was noted that payroll charges were charged to the program for personnel that did not have responsibilities under the ReACT program.

Questioned Costs:
Not applicable

Context:
It was noted that one individual was charged incorrectly to the ReACT program. The City performed a review and determined that no other employees were inappropriately charged to the grant. It was determined that $3,216 was inappropriately charged during the fiscal year.

Effect:
The City's process of automatically placing individuals in the open positions lacked proper oversight and created un-allowed cost to be charged to the ReAct program and thereby violating the APTBA agreement which could result in loss of future funding.

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2009

Cause:
Lack of oversight in assigning personnel to appropriate cost center.

Recommendation:
We recommend that the City initiate an oversight process that includes producing a report that indicates which employees have been assigned to which specific cost center when changes are made and that the report be verified through approval by the manager of each affected cost center.

Views of responsible officials and planned corrective actions:
In November 2009, we discovered that a portion of Detective Steven Huron's salary (and related fringe) from November 2008 had been incidentally applied against the Regional Auto Crimes Team grant internal order number. We corrected this issue by removing the expense from the grant (JE #101378983, $3,216.19, dated 1/27/10), reimbursing the grant and City's match (Check # 1376466 $2,098.87, dated 2/11/10 & JE 101398252 $1,117.32, dated 2/24/10 to Cash Match), and submitting a revised report (Date of Revised Report, 1-26-10). A review of payroll for the entirety of the grant showed that this was the only issue.

In order to preclude recurrence of this finding the management analysts in Fiscal Services will work with the grant program managers to monitor personnel salaries charged to grants. On a monthly basis, the responsible management analyst will request the payroll registers for their assigned grants from the SAPD Accounting Office. These registers will be sent to the grant program managers to be verified against the certifications of grant employees' time. (The certifications are maintained by the grant program.) Results will be returned to the management analyst and any discrepancies will be corrected immediately. Also, the management analysts will visit with grant program managers at least quarterly to review the certificates and cross-check the verification. Such action will ensure compliance with Administrative Directive 8.10, Financial Management for Grants.

Implementation Date
February 28, 2010

Responsible Person
William McManus, Chief of Police
Police Department

City of San Antonio, Texas

Status of Prior Year Findings

State

Finding: 2008-01
Airport Operations
Type of Finding – Material Weakness

Condition:
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.

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.

Status:
Completed

Airport management in conjunction with Finance has worked on updating policies and procedures related to financial operations and reporting of Airport functions. Airport divisions have met and worked on communication among them in order to ensure that airport leases are properly being entered, managed and adjusted as needed in SAP. Furthermore, processes were created to perform annual reviews of actual revenues/collections against year-end accruals in order to determine the accuracy of those accruals and whether any adjustments were needed.

Aviation revenue contracts were converted to SAP in June 2009 and Aviation began to bill directly out of SAP in September 2009. As part of the conversion, Aviation reviewed leases in place and ensured that the information input into SAP was in agreement with the existing lease contract before the conversion was considered complete and billings began.

<u>Responsible Persons</u>
Frank Miller, Director
Aviation Department

Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

<u>Finding: 2008-02</u>
Administration and Management of User Access
Type of Finding - Significant Deficiency

Condition:
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).

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.

Status:
In Process

The City has adopted new administrative directives [City's policies and procedures] that provide guidance and management of user access. Administrative Directive 7.8D addresses issues associated with Account Access Management, while Administrative Directive 7.8E focuses on User Account Management. Both administrative directives were adopted in July 2009. These along with technology solutions provide for better administration and management of user access. In December 2009, the City purchased password management software to reinforce and enhance the overall security position for user access. The City has an ongoing comprehensive project to address the needs of Sensitive Information by creating a "secure sensitive information" compartment inside the data center to be used for the processing of sensitive information.

ITSD has also developed processes to ensure that terminated employees' access rights are disabled in a timely fashion, but for this to be effective it is necessary that employee termination actions be completed in the City's HR system as soon as they occur, because ITSD uses the change in status to begin the account termination process. ITSD management will continue to work with HR management to reinforce the existing processes and procedures to ensure prompt notification to ITSD when an employee is terminated.

<u>Responsible Persons</u>
Richard Varn, Chief Information Officer
City Manager's Office

Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

Finding: 2008-03
Review and Oversight
Type of Finding – Significant Deficiency

Condition:
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.

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.

Status:
In process

For capital assets, a new administrative directive, AD8.7 Financial Management of Capital Assets and Tracked Property, scheduled for release in Summer 2010 has been drafted to standardize accounting and associated procedures for recording of assets from their acquisition/placed in service date through their disposition. Citywide training on these new procedures is anticipated to be done at the same time as the administrative directive is released. The City's Finance Department additionally shifted job duties of financial reporting staff in order to allow staff to have more time to focus on capital asset transactions and accounting within the City's system of record, SAP; and to allow the Financial Reporting Manager the ability to better review the work and assessments preformed by said staff.

A new general accounting administrative directive, AD8.12 General Accounting Requirements and Timelines, has also been drafted and is scheduled for release in Summer 2010. One of the key areas discussed in this administrative directive is revenue and expenditure cut off procedures. The administrative directive provides a timeline for City departments to post the receipt of goods and services received before the close of its fiscal year. It also sets a threshold for which department fiscal, accounts payable and general ledger personnel review invoices and/or package slips, etc. received after the fiscal year-end to determine whether those documents were for costs associated with the previous fiscal year and whether those costs were properly reported in that fiscal year; or whether a prior year-end accrual entry would be needed. The City incorporated these procedures in its FY 2009 year-end training, but will perform additional citywide training on these new procedures before release of the directive.

The City's Finance Department has been working with its external auditors during FY 2009 on calculating and recording the City's debt advance refunding balances. The City provided the auditors with a summary of how calculations are run as well as several examples to review and approve before the City recorded its FY 2009 year-end closing entries. Finance management and staff held numerous meetings reviewing our schedules and calculations prior to the arrival of the auditors. Staff additionally documented accounting policies associated with the debt advance refunding and related effective interest calculations for new bond issuances to provide a basis for calculating said transactions in the future. Further training will be provided to all staff impacted by this requirement in FY 2010.

The last issue dealt with the accrued leave calculation. The negative leave items that were reported in past reports have been fully corrected in FY 2009. Procedures were drafted and followed for FY 2009 without incident.

Responsible Person
Ben Gorzell Jr., CPA, Chief Financial Officer
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
State agency - Texas Attorney General's Office
Pass-through entity - N/A
Type of finding - Significant Deficiency

Condition:
It was noted that the City did not obtain approval to expend funds from the Asset Seizure Fund for one transaction.

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.

Status:
Corrected

This finding has been corrected by producing a purchase requisition workflow chart, as well as updating SAPD procedures. Both the purchase requisition workflow chart and internal procedures were implemented October 2008. Staffs for Fiscal Services, Accounting and Contracting have been trained on these procedures. The purchase requisition workflow chart was shown to the auditor during the FY09 Single Audit, and proved to be useful in following the purchase requisition process.

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
State agency - Texas Department of Transportation
Pass-through entity - N/A
Type of finding - Material Weakness and Material Non-compliance

Condition:
During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

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.

Status:
In Process

The finding has been partially corrected by conducting another inventory. The results have been documented in a memo, dated August 19, 2009 that details the results of the inventory. A list of inventoried equipment and vehicles is attached to the memo. This document was submitted through the chain of command, to the Deputy Chief, for review and approval. Also, Fiscal Services created a procedure for the inventory of grant purchased equipment on December 19, 2008. Both the Fiscal Services staff and the Administrative Assistant for the Vehicle Crimes Unit have trained on this procedure. This procedure will be updated again to include recording and reconciling of assets in SAP when the City of San Antonio publishes the Administrative Directive 8.7, Financial Management of Capital Assets and Tracked Property in Summer 2010.

Responsible Persons
William McManus, Chief of Police
Police Department

Ben Gorzell Jr., CPA, Chief Financial Officer
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
State agency - Texas Department of Transportation
Pass-through entity - N/A
Type of finding - Material Weakness and Material Non-compliance

Condition:
During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

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.

Status:
In Process

The finding has been partially corrected by conducting another inventory. The results have been documented in a memo, dated August 19, 2009 that details the results of the inventory. A list of inventoried equipment and vehicles is attached to the memo. This document was submitted through the chain of command, to the Deputy Chief, for review and approval. Also, Fiscal Services created a procedure for the inventory of grant purchased equipment on December 19, 2008. Both the Fiscal Services staff and the Administrative Assistant for the Vehicle Crimes Unit have trained on this procedure. This procedure will be updated again to include recording and reconciling of assets in SAP when the City of San Antonio publishes the Administrative Directive 8.7, Financial Management of Capital Assets and Tracked Property in Summer 2010.

Responsible Persons
William McManus, Chief of Police
Police Department

Ben Gorzell Jr., CPA, Chief Financial Officer
Finance Department

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