# City of San Antonio, Texas

## FINANCIAL & COMPLIANCE REPORT ON STATE GRANTS

## "SINGLE AUDIT REPORT"

Fiscal Year Ended September 30, 2007

# CITY OF SAN ANTONIO, TEXAS

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

For Fiscal Year Ended September 30, 2007


**Prepared by:**
DEPARTMENT OF FINANCE

**Ben Gorzell, Jr., CPA**
*Director of Finance*

**Troy Elliott, CPA**
*Assistant Director*

**Juanita Carabajal, CPA**
*Disbursements & Receivables Administrator*

**Melanie Seale, CPA**
*Controller*

**Elizabeth M. Drouillard, CPA**
*Financial Reporting Manager*

**Jay Blackwell**
*Financial Reporting Manager*

**Grants**
James Wilson
Victoria Roeder
Gloria Alvarado

# City of San Antonio, Texas

## *Introductory Section*

# Single Audit Report
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CITY OF SAN ANTONIO

P O BOX 839966
SAN ANTONIO, TEXAS 78283-3966

July 25, 2008

To the Honorable Mayor and City Council:

The City of San Antonio's Financial and Compliance Report on State Grants (Single Audit Report) for the fiscal year ended September 30, 2007, has been audited by the City's Independent Auditor, Grant Thornton, LLP, and has been prepared in accordance with the *State of Texas Single Audit Circular*. The report is comprised of the City's Management's Discussion and Analysis (MD&A), Basic Financial Statements, Schedule of Expenditures of State Awards, the Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular*, a Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With the *State of Texas Single Audit Circular*, and Schedule of Findings and Questioned Costs.

The City was awarded a total of $3.295 million in State assistance for the fiscal year ended September 30, 2007, compared to $2.928 million in the previous fiscal year. The net increase of $0.367 million is reported in the following categories:

| | | |
|---|---|---|
| Interlibrary Services | $ | (1,480) |
| Recreation and Arts | | (2,294) |
| Public Health | | 442,015 |
| Criminal Justice | | 205,483 |
| Environmental Quality | | (287,074) |
| Emergency Management | | 10,188 |
| **Total Net Increase** | $ | 366,838 |

A summary schedule reflecting amounts of categorical grants to the City in fiscal year 2007 as compared to the preceding year is presented on page iv. In addition, for your convenience, a list of acronyms identifying grantor agencies used in this report is provided on page v.

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

Information as it relates to federal financial assistance awarded to the City for the fiscal year ended September 30, 2007 and the Schedule of Expenditures of Federal Awards, are published in a separate report entitled Financial and Compliance Report on Federal Grants "Single Audit Report."

## CATEGORICAL GRANTS

### Interlibrary Services - $87,187

In fiscal year 2007, the City was awarded from the Texas State Library and Archives Commission (TSLAC), a Loan Star Libraries grant totaling $87,187. The Loan Star Libraries grant program is a direct State aid grant program for the Public Libraries in Texas. Last year's award from TSLAC was $88,667. The 2007 grant was used to purchase eighty replacement desktop computers for use by the public. These computers replaced public access computers that were over six years old and located throughout the community in branch libraries. Library public access computers provide access to the Internet, online databases, homework assistance and software applications to those without computer and Internet access in the home.

## CATEGORICAL GRANTS (Continued)

### Recreation and Arts

The Texas Commission on the Arts (TCA) awarded $2,294 to the City's Office of Cultural Affairs in fiscal year 2006. The City was not awarded any State grants for recreation and arts in fiscal year 2007.

### Public Health - $1,390,941

The Texas Department of State Health Services (DSHS) awarded to the San Antonio Metropolitan Health District (SAMHD) the amount of $1,390,941 for Public Health State Supported Projects compared to $948,926 in 2006. SAMHD received $184,272 to fund Tuberculosis Prevention Program, which was used to investigate, diagnose, and manage suspected cases of tuberculosis. Funding totaling $629,563 was awarded to the Local Health Support Program to provide support services for a variety of public health programs. Finally, SAMHD received $577,106 to fund the Inner City School Immunization Program. This program provided immunization delivery and established consistent policies to immunize pre-school age children.

| | | |
|---|---|---|
| Tuberculosis Prevention Program | (DSHS) | $ 184,272 |
| Local Health Support Program | (DSHS) | 629,563 |
| Inner City School Immunization Program | (DSHS) | 577,106 |
| **Total** | | $ 1,390,941 |

### Criminal Justice - $1,152,665

The City was awarded Criminal Justice grants totaling $1,152,665 compared to $947,182 awarded in the prior year. The Police Department was awarded a grant totaling $1,126,216 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. An additional grant from the Office of the Governor - Criminal Justice Division (CJD) in the amount of $26,449 was awarded for Operations Fast Track, which purchased cameras and recording devices for patrol cars.

| | | |
|---|---|---|
| Texas Automobile Burglary and Theft Prevention Authority | (TABTPA) | $ 1,126,216 |
| Operations Fast Track | (CJD) | 26,449 |
| **Total** | | $ 1,152,665 |

### Environmental Quality - $632,082

Environmental Quality grants totaling $632,082 were awarded in fiscal year 2007 compared to $919,156 awarded to the City in the previous year. The Texas Commission on Environmental Quality (TCEQ), through the Alamo Area Council of Governments (AACOG), awarded to the SAMHD a $459,766 grant to support the Public Center for Environmental Health (PCEH), in the operation and maintenance of air monitors. In addition, TCEQ awarded the City of San Antonio Public Works Department a $172,316 grant to support efforts in installing an Intelligent Transportation System.

### Environmental Quality (Continued)

| | | |
|---|---|---|
| San Antonio Air Monitoring Project | (TCEQ/AACOG) | $ 459,766 |
| Intelligent Transportation System | (TCEQ/AACOG) | 172,316 |
| **Total** | | $ 632,082 |

## CATEGORICAL GRANTS (Continued)

**Emergency Management - $31,940**

An Emergency Management grant in the amount of $31,940 was awarded in fiscal year 2007 compared to $21,752 awarded to the City in the previous year. This grant was awarded by the DSHS through the Southwest Texas Regional Advisory Council (STRAC) to be used for eligible Emergency Management Services (EMS) expenses.

## 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 Criminal Justice Division of the State of Texas, Office of the Governor, 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, 2007 is presented in the "Schedule of Findings and Questioned Costs" beginning on page 183 of this report. A summary schedule entitled "Summary Schedule of Prior Audit Findings" is also available under separate cover. This schedule describes the City's planned corrective action in response to the prior year's findings and questioned costs. The City continues its efforts to resolve each of these findings with the respective grantor agency.

## CONCLUSION

During fiscal year 2007, as in the past years, the City has been the recipient of State grants in support of the acquisition of facilities, the construction of public improvements, and the operation of programs, which the City would have been unable to undertake from local resources. These State grants have materially contributed to enhancing the quality of life for the citizens of San Antonio.

I extend my sincere appreciation to the City Council for its dedicated work in its authorization of our grant programs and its leadership along with the City Manager, Deputy City Managers, Assistant City Managers, their staff and to all the City Departments who administers 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 group, for their financial accounting of these grant programs, and to our independent auditors, Grant Thornton LLP, for their professional assistance in the preparation of this report.

Respectfully submitted,

Ben Gorzell, Jr., CPA
Director
Finance Department

**City of San Antonio, Texas**
**Schedule of State Grants Awarded in Fiscal Year 2007**
(With comparative totals for Fiscal Year 2006)

| Grant Type | Fiscal Year 2006-2007 | Fiscal Year 2005-2006 | Variance Increase (Decrease) |
|---|---|---|---|
| **Categorical Grants:** | | | |
| Interlibrary Services | $ 87,187 | $ 88,667 | $ (1,480) |
| Recreation and Arts | 0 | 2,294 | (2,294) |
| Public Health | 1,390,941 | 948,926 | 442,015 |
| Criminal Justice | 1,152,665 | 947,182 | 205,483 |
| Environmental Quality | 632,082 | 919,156 | (287,074) |
| Emergency Management | 31,940 | 21,752 | 10,188 |
| **Total Categorical Grants** | $ 3,294,815 | $ 2,927,977 | $ 366,838 |

## GRANTING AGENCY AND PROGRAM ACRONYMS

| | | |
|---|---|---|
| AACOG | - | Alamo Area Council of Governments |
| SAMHD | - | San Antonio Metropolitan Health District |
| STRAC | - | Southwest Texas Regional Advisory Council |
| TCA | - | Texas Commission on the Arts |
| TABTPA | - | Texas Automobile Burglary and Theft Prevention Authority |
| TCEQ | - | Texas Commission on Environmental Quality |
| TSLAC | - | Texas State Library and Archives Commission |
| DSHS | - | Texas Department of State Health Services |
| PCEH | - | Public Center for Environmental Health |
| EMS | - | Emergency Medical Services |
| CJD | - | Office of the Governor - Criminal Justice Division |

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

# City of San Antonio, Texas

## *Financial Section*

# City of San Antonio, Texas

## *Independent Auditors' Report*

GrantThornton

## Independent Auditor's Report

Audit • Tax • Advisory

**Grant Thornton LLP**
1717 Main Street, Suite 1500
Dallas, TX 75201-9436

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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, 2007, 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 Development Agency, San Antonio Education Facilities Corporation, Port Authority of San Antonio, San Antonio Housing Trust Foundation, Inc., San Antonio Local Development Company and Brooks Development Authority, blended component units, which represent 74%, 77% and 40%, respectively, of the assets, net assets and revenues /additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

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

Grant Thornton

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2007, 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.

As discussed in Note 17 to the financial statements, the net assets of the governmental activities, the business-type activities, the airport system fund, and the aggregate remaining funds as of September 30, 2006 have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2008 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 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 138, and Schedules of Funding Progress on pages 173 - 174 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Grant Thornton LLP

Dallas, Texas
July 18, 2008

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, 2007. 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 $2,611,930 (net assets). Of this amount, $205,751 (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 $826,054, a decrease of $19,259 compared to the fiscal year 2006 fund balance. The total unreserved fund balance of $528,881 is available for spending at the government's discretion. Of this amount, $68,736 is designated and $460,145 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $142,960 or 22.1% 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, urban redevelopment and housing, welfare, and economic development and opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

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

## Fund Financial Statements

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

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

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

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

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

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

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

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

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

***Other information*** - In addition to the basic financial statements and the accompanying notes, this report also presents the required supplementary information of (a) the City's General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and retirement 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 additional supplementary information.

## 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, 2007.

**Net Assets**
**Year Ended September 30, 2007**
**(With Comparative Totals for September 30, 2006 Restated)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* |
| Current and Other Assets | $ 1,135,530 | $ 1,079,838 | $ 245,495 | $ 245,795 | $ 1,381,025 | $ 1,325,633 |
| Capital Assets | 3,197,479 | 3,056,369 | 344,861 | 295,565 | 3,542,340 | 3,351,934 |
| Total Assets | 4,333,009 | 4,136,207 | 590,356 | 541,360 | 4,923,365 | 4,677,567 |
| Current and Other Liabilities | 333,554 | 189,577 | 51,634 | 23,171 | 385,188 | 212,748 |
| Long-term Liabilities | 1,673,940 | 1,675,180 | 252,307 | 266,790 | 1,926,247 | 1,941,970 |
| Total Liabilities | 2,007,494 | 1,864,757 | 303,941 | 289,961 | 2,311,435 | 2,154,718 |
| Net Assets: | | | | | | |
| Investments in Capital Assets, net of related debt | 2,023,868 | 1,984,942 | 201,846 | 216,459 | 2,225,714 | 2,201,401 |
| Restricted | 118,906 | 105,024 | 61,559 | 27,700 | 180,465 | 132,724 |
| Unrestricted | 182,741 | 181,484 | 23,010 | 7,240 | 205,751 | 188,724 |
| Total Net Assets | $ 2,325,515 | $ 2,271,450 | $ 286,415 | $ 251,399 | $ 2,611,930 | $ 2,522,849 |

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

For the year ended September 30, 2007, total assets exceeded liabilities by $2,611,930. The largest portion of the City's net assets, $2,225,714 (85.2%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

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

Of the total net assets, $180,465 (6.9%) represents resources that are subject to external restrictions on how they may be used. The remaining $205,751 (7.9%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

City of San Antonio, Texas
Changes in Net Assets
Year Ended September 30, 2007
(With Comparative Totals for September 30, 2006)

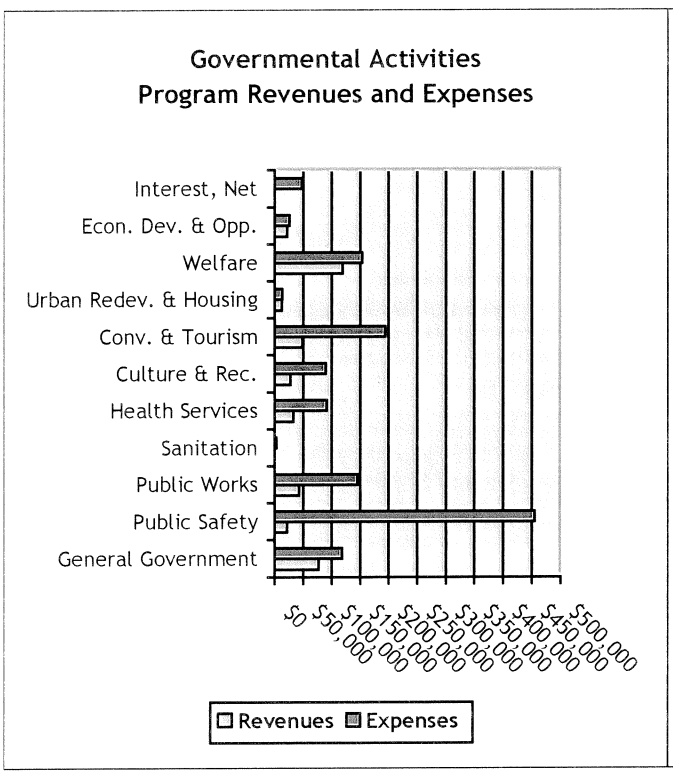
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 160,179 | $ 165,769 | $ 133,431 | $ 120,424 | $ 293,610 | $ 286,193 |
| Operating Grants and Contributions | 186,381 | 179,917 | | | 186,381 | 179,917 |
| Capital Grants and Contributions | 57,891 | 29,050 | 23,188 | 18,079 | 81,079 | 47,129 |
| General Revenues: | | | | | | |
| Property Taxes | 326,342 | 276,728 | | | 326,342 | 276,728 |
| Other Taxes | 327,990 | 308,017 | | | 327,990 | 308,017 |
| Revenues from Utilities | 257,687 | 256,541 | | | 257,687 | 256,541 |
| Investment Earnings | 54,027 | 38,386 | 11,099 | 10,023 | 65,126 | 48,409 |
| Miscellaneous | 26,530 | 16,173 | 1,973 | 589 | 28,503 | 16,762 |
| Special Items | | | | 10,870 | | 10,870 |
| Total Revenues | 1,397,027 | 1,270,581 | 169,691 | 159,985 | 1,566,718 | 1,430,566 |
| Expenses: | | | | | | |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 118,288 | 83,719 | | | 118,288 | 83,719 |
| Public Safety | 454,673 | 424,058 | | | 454,673 | 424,058 |
| Public Works | 144,806 | 226,849 | | | 144,806 | 226,849 |
| Sanitation | 2,786 | 3,112 | | | 2,786 | 3,112 |
| Health Services | 91,544 | 87,283 | | | 91,544 | 87,283 |
| Culture and Recreation | 89,961 | 90,337 | | | 89,961 | 90,337 |
| Convention and Tourism | 193,702 | 126,802 | | | 193,702 | 126,802 |
| Conservation | | 146 | | | | 146 |
| Urban Redevelopment and Housing | 13,322 | 21,766 | | | 13,322 | 21,766 |
| Welfare | 153,664 | 134,554 | | | 153,664 | 134,554 |
| Economic Development and Opportunity | 25,698 | 12,159 | | | 25,698 | 12,159 |
| Interest on Long-Term Debt, Net Amortization | 48,114 | 65,960 | | | 48,114 | 65,960 |
| Business-Type Activities: | | | | | | |
| Airport System | | | 64,482 | 78,083 | 64,482 | 78,083 |
| Parking System | | | 8,525 | 9,299 | 8,525 | 9,299 |
| Enviromental Services | | | 68,072 | 61,253 | 68,072 | 61,253 |
| Total Expenses | 1,336,558 | 1,276,745 | 141,079 | 148,635 | 1,477,637 | 1,425,380 |
| Change in Net Assets | | | | | | |
| Before Transfers | 60,469 | (6,164) | 28,612 | 11,350 | 89,081 | 5,186 |
| Transfers | (6,404) | 1,021 | 6,404 | (1,021) | | |
| Net Change in Net Assets | 54,065 | (5,143) | 35,016 | 10,329 | 89,081 | 5,186 |
| Beginning, Net Assets as restated | 2,271,450 | 2,276,593 | 251,399 | 241,070 | 2,522,849 | 2,517,663 |
| Ending, Net Assets | $ 2,325,515 | $ 2,271,450 | $ 286,415 | $ 251,399 | $ 2,611,930 | $ 2,522,849 |

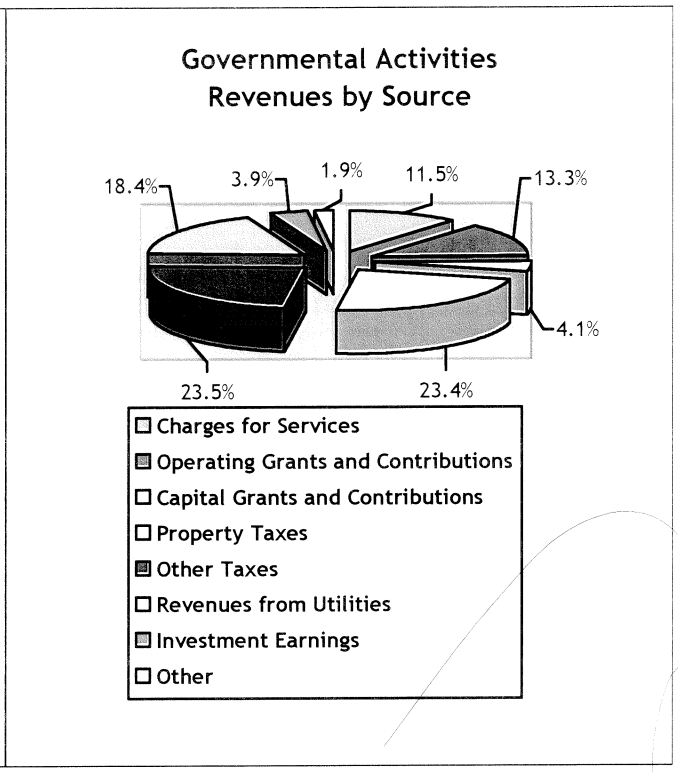
* Certain amounts presented in the prior year data have been restated to correct errors as discussed in Note 17, Prior Period Restatement; and reclassified in order to be consistent with the current year's presentation.

## Governmental Activities

The City's total revenues were $1,566,718 for fiscal year ended September 30, 2007. Revenues from governmental activities totaled $1,397,027 and revenues from business-type activities totaled $169,691. General revenues represented 64.4% of the City's total revenue, while program revenues provided 35.6% of revenue received in fiscal year 2007.

Expenses for the City totaled $1,477,637. Governmental activity expenses totaled $1,336,558, or 90.5% of total expenses.



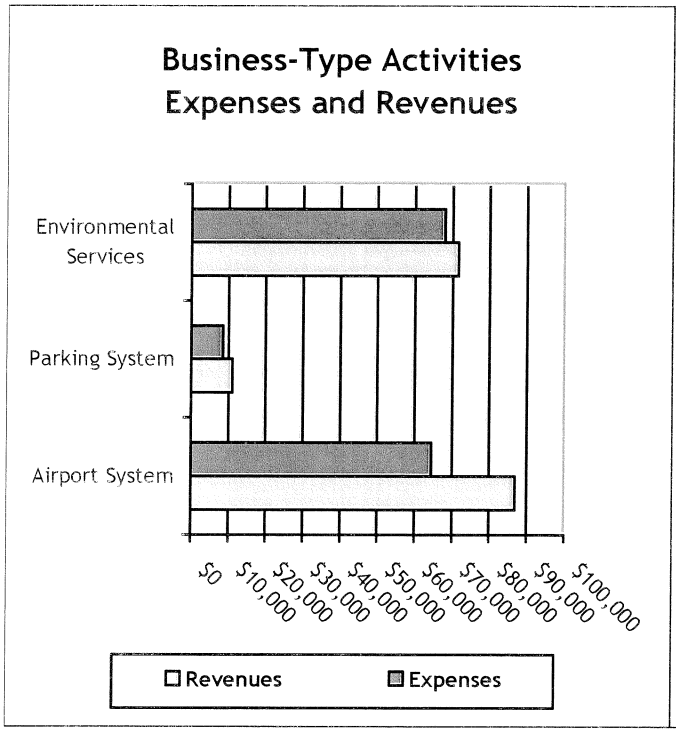

Governmental Activities increased the City's net assets by $54,065. The reason for the change is as follows:

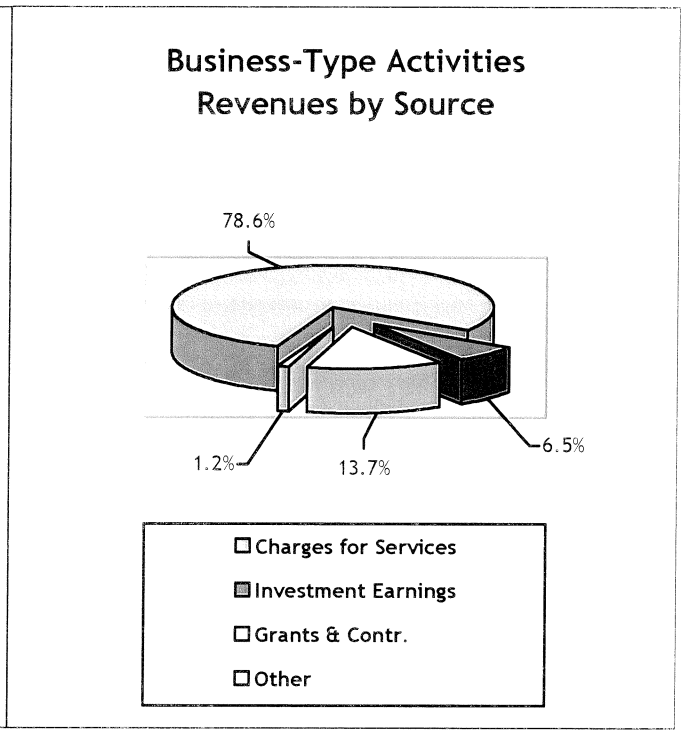
- Grants and Contribution revenues increased by $35,305 primarily as a result of $8,729 in additional contributions for the Convention Center Finance Corp., $6,808 in additional grants and contributions related to the Community Development Program, $6,285 in additional contributions for capital projects, and $7,314 in additional contributions for HUD 108 programs.
- Revenues from Property Taxes increased by $49,614 due to an increase in the overall taxable value, due to reappraisals, annexations and new construction. Taxable values increased from $49,868,955 in fiscal year 2006 to $56,767,701 in fiscal year 2007 while the tax rate remained the same in both years, resulting in additional revenues of $40,012.
- Other Taxes increases of $19,973 included sales and use taxes, whose revenues increased by $14,715 due to a healthy economy, increased economic development throughout the City, and increased tourism. Hotel occupancy taxes also increased by $5,200 due to an increase in tourism and convention business.
- Investment Earnings increased by $15,641 due to a significant increase in yields and higher cash and investment holdings as a result of higher average investment balances.
- Miscellaneous Revenues increased by $10,357 primarily as a result of $10,990 of lease proceeds and $3,000 of reimbursement of prior year expenditures for capital projects.
- An increase of $34,569 of General Government is attributed to an increase in depreciation expense of $2,334 for depreciable assets in service during fiscal year 2007; additional activities of $1,434 in the Equipment Acquisition Fund for the purchase of trash cans; new activity within the Tax Increment Reinvestment Zone (TIRZ) that resulted in $3,400 of additional expenditures; $9,153 reduction of accreted debt in fiscal year 2006 that did not reoccur; $1,178 increase in capital projects; and $5,550 increase in general government activities such as river operations, municipal elections and the reorganization and moving costs of various City departments.
- Public Safety expenses increased by $30,615 primarily due to an increase in uniformed personnel.

- Public Works expenses decreased by $82,043 was due to $25,983 of Hurricane Katrina relate expenses incurred in fiscal year 2006 that did not reoccur; $24,908 in cumulative depreciation expense and $10,088 of assets not capitalized correctly as recorded in fiscal year 2006 as part of the restatement. The remainder of the variance is attributable to the cumulative effect of restating accumulated depreciation in fiscal year 2006, which has skewed comparative balances from fiscal year 2006 to 2007.
- Convention and Tourism expenses increased by $66,900, primarily due to an increase in expenses of $84,353 for the Convention Center Hotel as it continued construction in fiscal year 2007. The City additionally paid a $3,000 litigation settlement related to the Henry B. Gonzalez Convention Center during fiscal year 2007.
- Welfare expenses increased in fiscal year 2007 by $19,110 due to increased expenditures targeting workforce development and increased housing and neighborhood services.
- Expenses for Economic Development and Opportunity increased by $13,539 due to various public improvement projects downtown including landscaping and district reorganizations; $833 in principal and interest payments for Starbright Development Corporation; and $5,044 for increased grant activities.
- Interest in Long-Term Debt, Net Amortization decreased by $17,846 due to a $4,000 decrease in interest expense as a result of principal payments made during 2007. An additional reduction in expenses of $12,554 was due to the annual amortization of debt related items and a change in amortization to the effective interest method. The straight line method was used to amortize bond issuance costs, premiums and discounts in fiscal year 2006.

## Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $156,619, which is $18,116 higher than the previous fiscal year. The remaining revenues were a result of interest and other miscellaneous items. Expenses for Business-Type Activities were $141,079 compared to prior year's expenses of $148,635.




Business-Type Activities increased the City's net assets by $35,016, primarily because of the following:

- Charges for Services increased $13,007 because of an increase in customers served, as well as various fee increases implemented in fiscal year 2007. Environmental Services experienced an increase of $9,990 primarily due to an increase in the solid waste fee and the implementation of a new automated

garbage collection fee. Within the Airport System, most revenue categories had nominal increases due to increased passengers as well as greater revenue from terminal building rentals and property leases.

- Investment earnings increased by $1,076 when compared to fiscal year 2006 due to higher interest rates earned on time deposits, and a larger cash base to earn interest on as a result of higher average investment balances.
- A $5,109 increase in Capital Grants and Contributions in the Airport System Fund was primarily attributed to a $4,107 increase in reimbursement from grant funded capital expenditures at the San Antonio International Airport.
- A $10,870 decrease in Parking System's Special Items, was a result of a one-time reallocation of general obligation debt to the City's governmental activities in fiscal year 2006.
- Airport System expenses decreased by $13,601. This decrease is primarily due to $24,262 in adjustments from CIP for non-City assets that was recorded as part of the restatements. This decrease was mitigated by the continued progression of noncapitalizable improvement projects with current year expenses of $9,680.
- Environmental Services expenses increased by $6,819. This increase is primarily due to additional expenses associated with the implementation of automated garbage collection services, primarily in the way of interest payments as well as increases in fuel and maintenance costs within that fund.

## Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Categorical Grant-In Aid Fund are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are 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. The Categorical Grant-In Aid Fund is used primarily to account for receipt and disbursement of all federal and state grants except for Community Development Block Grants, HUD 108 Loan Program and HOME Investment Partnership Grants.

Revenues from taxes increased by $56,049, which is primarily attributable to: (1) a $19,355 or 34.5% increase in property tax and related penalties and interest revenues in the General Fund, (2) a $12,323 or 22.0% increase in sales and use tax revenues in the General Fund, (3) a $14,406 or 25.7% increase in property tax and related penalties and interest revenues for the Debt Service Fund, and (4) a $5,220 or 9.3% increase in occupancy taxes for the Nonmajor Governmental Funds. The increases in property taxes are a result of increased property valuation, new construction, and annexation; while the increase in sales and use taxes and occupancy taxes are a result of a strong economy, expanded tourism and room capacity.

The total fund balance of the General Fund at year-end was $159,690, a decrease of $1,786 from the total fund balance of $161,476 for the close of fiscal year 2006. The total unreserved General Fund balance for fiscal year 2007 is $142,960, which represents $62,662 in designated and $80,298 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the close of the fiscal year, decreased by $22,225 from the previous year. This decrease is attributed to the increase of the City's financial reserves in the amount of $19,950 in fiscal year 2007. 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 occurrence of a similar event, and 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 $102,306; an increase of $9,863 from the total fund balance of $92,443 for the close of fiscal year 2006. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid has a total deficit fund balance of $10,504. The City engaged in a grant reconciliation effort that began in fiscal year 2006 and continued into fiscal year 2008. The City's departmental fiscal staff was required to validate data in the City's financial system relating to grants. With this effort, the

City determined that the City 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 five years.

## General Fund Budgetary Highlights

**Significant Variances in Budget Appropriations**
**(Budgetary Basis)**
**General Fund**

| | Original Budget | Final Budget | Actual Results |
|---|---|---|---|
| General Government | $ 115,017 | $ 101,702 | $ 79,705 |
| Public Safety | 414,494 | 435,028 | 437,207 |
| Public Works | 11,028 | 11,028 | 10,760 |
| Health Services | 12,637 | 13,215 | 13,110 |
| Sanitation | 3,274 | 3,281 | 3,008 |
| Welfare | 36,919 | 42,632 | 42,124 |
| Culture and Recreation | 70,608 | 71,225 | 69,729 |
| Economic Development and Opportunity | 2,846 | 3,117 | 3,505 |
| Transfers to Other Funds | 122,846 | 124,633 | 126,065 |
| Total | $ 789,669 | $ 805,861 | $ 785,213 |

Changes in original budget appropriations to the final amended budget appropriations were a $16,192 increase in appropriations. This increase can be summarized by the following discussion:

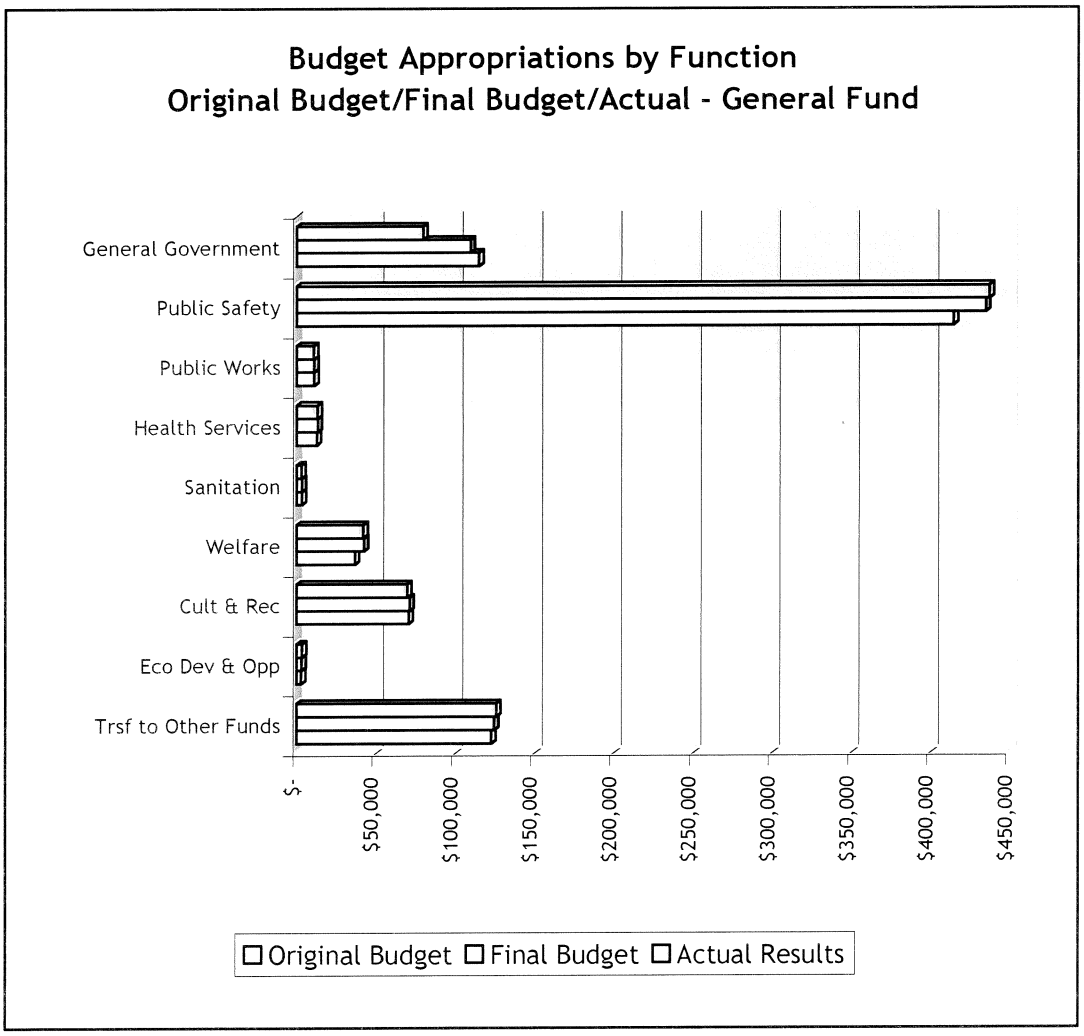
- General Government has a $13,315 decrease composed of $5,133 of budget carryforwards and an $18,448 decrease in budget. Of the $5,133 of budget carryforwards, $5,589 is nondepartmental carryforwards and the remainder are carryforwards for other departments. The $18,448 budget decrease is made up of the indirect cost reallocation of $7,791, decreases in special projects and nondepartmental appropriations of $14,399, and other budget increases and decreases in various departments resulting in a net budget increase of $3,742.
- Of the $20,534 increase in Public Safety, $5,215 is due to budget carryforwards and $15,319 to budget increases. The $15,319 in budget increases is primarily due to an increase to the Police Department of $6,501 for personal services and Public Safety Administration of $9,617. The increase to Public Safety Administration reflects a $7,532 appropriation based on the new collective bargaining agreement which included retroactive raises for fiscal year 2006 and 2007.
- Of the $5,713 increase in Welfare; $1,891 is due to budget carryforwards and $3,822 is due to a budget increase. These budget increase and carryforwards were reallocated to fund functional costs over original budget.
- The $1,787 increase in transfers is due to $292 in budget carryforwards and $1,495 in new appropriations. The majority of the new appropriations come from the transfer of $1,051 to the Capital Projects Fund for the Main Plaza renovation project.

Final budgeted appropriations for the General Fund were $805,861, while actual expenditures were $785,213 creating a positive variance of $20,648. Significant variances are as follows:

- General Government had a $21,997 positive variance, which is due to the fact that indirect costs charged and recovered from other departments are netted against actual related expenditures. These indirect cost's recoveries ($7,900 in fiscal year 2007) were not included in the budget. The City included the annual cost of living adjustment estimate in the General Government function even though actuals payouts are posted to both General Government and Public Safety. Public Safety typically receives 70% of the total estimate.

- Culture and Recreation had a $1,496 positive variance, which is due to encumbrances at year end of $830, primarily related to the new book tagging system for the Library.
- Public Safety had a $2,179 negative variance, which is primarily due to cost of living increases for Public Safety employees, uniformed and civilian, that was recognized under this function but budgeted under General Government.
- Transfers to Other Funds had a $1,432 negative variance, which is composed of $1,051 for Main Plaza Renovations and smaller variances primarily related to funding capital projects and grant funds, as authorized by City Council.

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




## Financial Analysis of Proprietary Funds

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

## Capital Assets

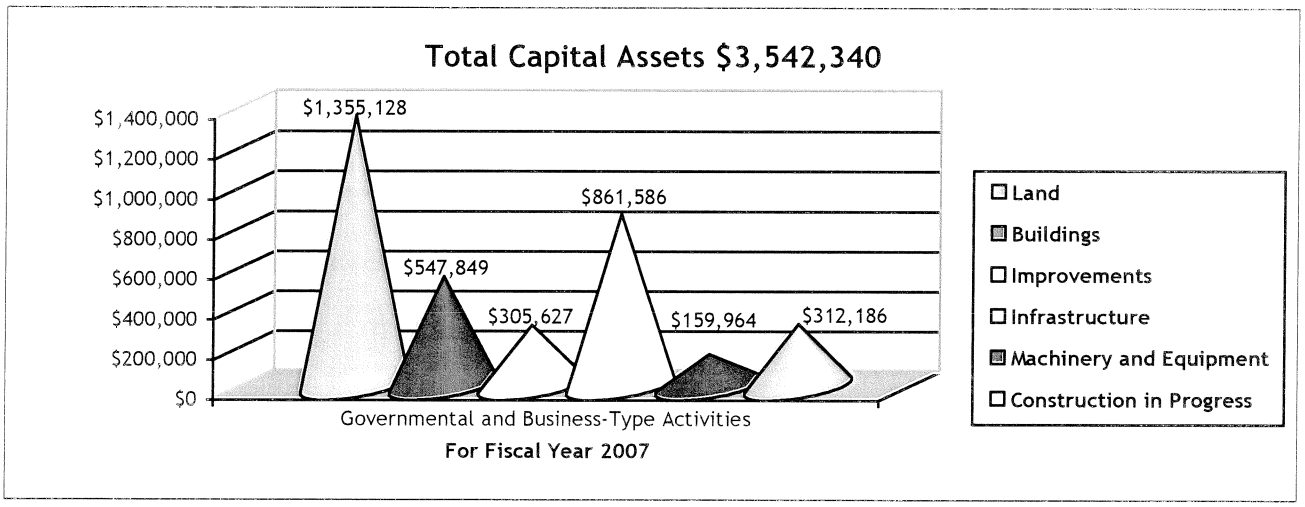
The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007 amounts to $3,549,809 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was $190,406, which comprises a $141,110 increase for governmental activities and a $49,296 increase for business-type activities.

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* | 2007 | 2006 (Restated)* |
| Land | $ 1,341,567 | $ 1,289,520 | $ 13,561 | $ 11,988 | $ 1,355,128 | $ 1,301,508 |
| Buildings | 448,840 | 452,684 | 99,009 | 103,048 | 547,849 | 555,732 |
| Improvements | 176,013 | 168,632 | 129,614 | 135,014 | 305,627 | 303,646 |
| Infrastructure | 861,586 | 880,539 | | | 861,586 | 880,539 |
| Machinery and Equipment | 155,286 | 154,827 | 4,678 | 3,149 | 159,964 | 157,976 |
| Construction in Progress | 214,187 | 110,167 | 97,999 | 42,366 | 312,186 | 152,533 |
| Total | $ 3,197,479 | $ 3,056,369 | $ 344,861 | $ 295,565 | $ 3,542,340 | $ 3,351,934 |

* These amounts have been restated to correct errors as discussed in Note 17, Prior Period Restatement.

During fiscal year 2007, the City transferred $64,538 of construction in progress to depreciable asset classes for various completed projects for buildings, improvements, infrastructure, and equipment. The City additionally restated fiscal year 2006 balances to properly transfer $(204,936) from construction in progress to depreciable asset classes; adjust $195,995 in construction in progress to expenses for projects that did not create City assets; and record $(29,175) in prior period depreciation.

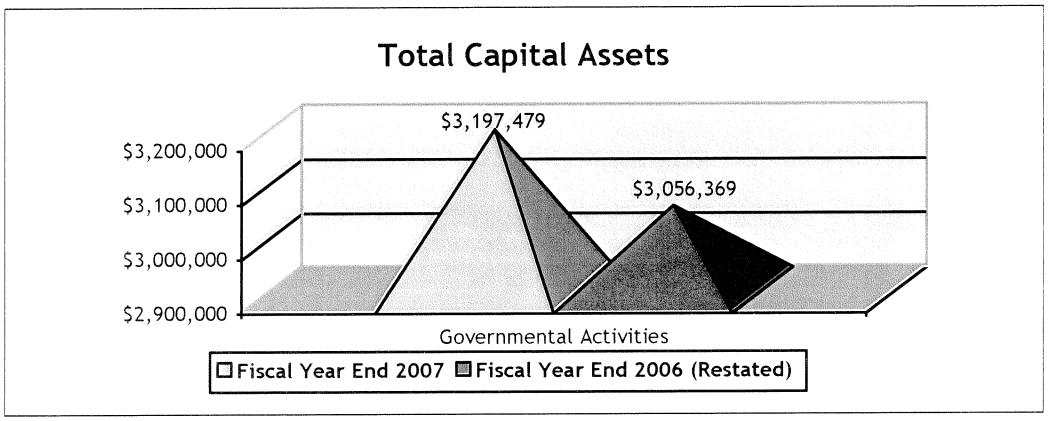
The following schedule provides a summary of the City's capital assets:

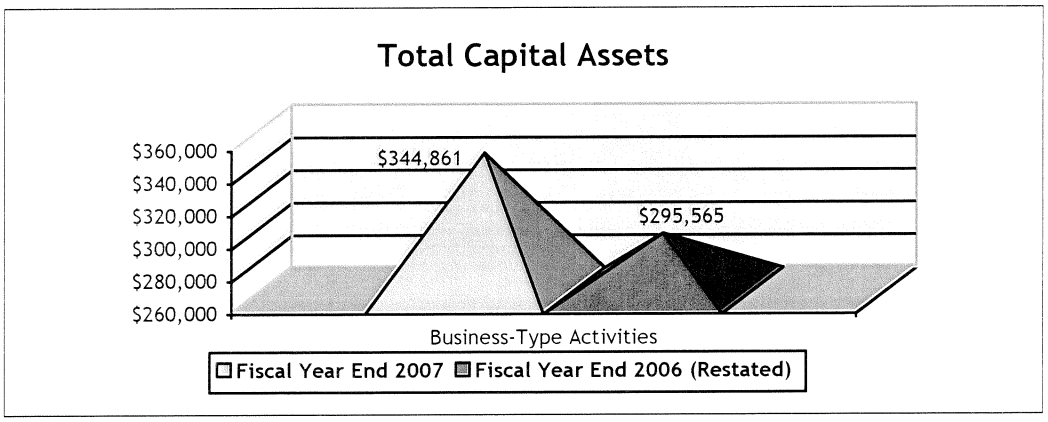


**Change in Capital Assets**
**September 30, 2007**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| Beginning Balance (Restated) | $ 4,793,533 | $ 461,990 | $ 5,255,523 |
| Additions | 257,131 | 60,077 | 317,208 |
| Deletions | (13,337) | (332) | (13,669) |
| Accumulated Depreciation | (1,839,848) | (176,874) | (2,016,722) |
| Ending Balance | $ 3,197,479 | $ 344,861 | $ 3,542,340 |

The following charts provide a summary of the changes in capital assets:




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

## Debt Administration

*Long-Term Debt*

At the end of the current fiscal year, the City had a total of $1,771,994 in bonds, certificates, revenue bonds, Tax Notes, and commercial paper outstanding, an increase of 6.1% 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 and Other Borrowings.

City of San Antonio's Outstanding Debt
September 30, 2007 and 2006

| | Governmental Activities | |
|---|---|---|
| | 2007 | 2006 |
| Bonds Payable: | | |
| General Obligation Bonds | $ 667,280 | $ 623,075 |
| Tax Exempt Certificates of Obligation | 218,185 | 183,455 |
| Taxable Certificates of Obligation | 290 | 6,170 |
| Tax Notes | 60,000 | 37,600 |
| Commercial Paper | 4,000 | |
| Revenue Bonds | 554,372 | 551,767 |
| Capital Appreciation Bonds (CAB) | 16,497 | 15,440 |
| Total | $ 1,520,624 | $ 1,417,507 |

| | Business-Type Activities | |
|---|---|---|
| | 2007 | 2006 |
| Bonds Payable: | | |
| Revenue Bonds | $ 251,370 | $ 261,885 |
| Total | $ 251,370 | $ 261,885 |

*Governmental Activities*

In 2007, the City issued debt for a total of $386,060. The $386,060 was composed of $170,785 in general obligation bonds, $73,155 in certificates of obligation, $60,000 in Tax Notes, $78,120 in revenue bonds, and $4,000 in commercial paper. The general obligation bonds will be utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvements to include street, drainage, library, parks and recreation, and public health improvements. The certificates of obligation will be utilized to fund capital improvements to include public safety, including constructing, renovating, and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; construction improvements for flood control, dams, landscaping and amenities along the San Antonio River; construction improvements and renovations to municipal and public facilities to include the Plaza de Armas building and Pearsall Landfill; construction improvements to the City's library system, and municipal golf courses; constructing utility system and other infrastructure improvements at KellyUSA; constructing and equipping certain downtown public restroom facilities; payment of the costs of a study for the possible relocation of the San Antonio Metropolitan Health District Laboratory to Brooks City-Base and a portion of the relocation costs; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes. In October 2006, the City issued $72,620 of Hotel Occupancy Tax (HOT) Revenue Refunding Bonds; the proceeds will be used to refund a portion of the City's outstanding debt. Additionally, in June 2007 the City issued $60,000 in Tax Notes that will be used for the acquisition and construction of land for the Homeless Campus; acquiring land for the park facilities, Voelker Park and Denman Land; acquisition of a San Antonio Police property room; fund public safety, drainage, sidewalk, bridge, and street improvements; constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River; and constructing and improving municipal facilities. The City issued $5,500 HOT Notes; proceeds of the note will be used for Alamodome renovations and enhancements necessary to host the 2008 NCAA Men's Final Four. 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." As of September 30, 2007, $4,000 of these Commercial Paper Notes were issued and outstanding.

*Business-Type Activities*

On December 12, 2006, the City issued $17,850 of Airport System Revenue Refunding Bonds, Series 2006 to refund a portion of the City's outstanding debt.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2007 are as follows:

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| General Obligation/ Certificates of Obligation | AA+ | Aa2 | AA+ |
| Hotel Occupancy Tax Bonds | AAA | Aaa | AAA |
| Hotel Occupancy Tax Notes | Private Placement - Not Rated | | |
| Airport System | A+ | A1 | A+ |
| Aiport PFC | A- | A2 | A+ |
| Parking System | A+ | A2 | A+ |

Moody's elevated the City's General Obligation/Certificates of Obligation rating in November 2007 to Aa1.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total assessed valuation for the fiscal year ended 2007 was $65,033,626, which provides a debt ceiling of $6,503,363.

## Currently Known Facts

The City processed numerous debt issuances after fiscal year end. In November 2007, the City issued $121,220 of General Improvement and Refunding Bonds, Series 2007, $21,270 in Tax Notes, Series 2007A, $82,400 in Airport System Revenue Improvement Bonds, Series 2007 $74,860 in Passenger Facility Charge and Airport System Revenue Improvement Bonds, Series 2007 and in July 2008, the City issued $135,000 in HOT Revenue and Refunding Bonds, Series 2008.

In 2004, the City of San Antonio and the Bexar County Citizen's Commission on City/County Service Integration recommended the establishment of a new city-county health authority that would combine the San Antonio Metropolitan Health District (SAMHD) and the University Health System (UHS). The transition occurred February 4, 2008.

At its December 8, 2007 meeting, the Texas Municipal Retirement System (TMRS) Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit method would be used. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. Using demographic data from the December 31, 2006 valuation, TMRS' actuary had made revised calculations with the new actuarial assumptions.

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

In the second quarter of fiscal year 2008, the City's third party contractor, who handled geotechnical and environmental engineering services for Nelson Gardens Landfill, cancelled their contract, resulting in the City having to pick up additional costs related to ground water monitoring at Nelson Gardens Landfill. These additional costs were included in the City's postclosure liability calculation. For more information on this item, please see Note 11, Commitments and Contingencies.

## 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

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

Year Ended September 30, 2007

# City of San Antonio, Texas

## *Basic Financial Statements*

## Statement of Net Assets
### As of September 30, 2007
(In Thousands)

| | PRIMARY GOVERNMENT | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| **Assets:** | | | | |
| Cash and Cash Equivalents | $ 12,943 | $ 1,113 | $ 14,056 | $ 84,682 |
| Cash Collateral from Securities Lending | | | | 626,370 |
| Investments | 292,554 | 34,179 | 326,733 | 462,740 |
| Receivables, Net | 96,382 | 12,134 | 108,516 | 226,215 |
| Due from: | | | | |
| Fiduciary Funds | 670 | | 670 | |
| Other Governmental Agencies, Net | 1,674 | | 1,674 | 2,948 |
| Internal Balances | 3,008 | (3,008) | | |
| Materials and Supplies, at Cost | 5,490 | 777 | 6,267 | 138,146 |
| Prepaid Expenses | 960 | 17 | 977 | 52,334 |
| Other Assets | | | | 530 |
| Deposits | 36 | | 36 | |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 141,012 | 30,103 | 171,115 | 239,966 |
| Investments | 458,287 | 157,179 | 615,466 | 1,534,226 |
| Receivables, Net | 57,758 | 2,823 | 60,581 | 11,562 |
| Prepaid Expenses | 39 | | 39 | |
| Deposits | 261 | | 261 | |
| Deferred Charges | | | | 2,304 |
| Due from: | | | | |
| Other Governmental Agencies | 4,160 | | 4,160 | |
| Capital Assets: | | | | |
| Non Depreciable | 1,555,754 | 111,560 | 1,667,314 | 1,018,586 |
| Depreciable, Net | 1,641,725 | 233,301 | 1,875,026 | 6,982,854 |
| Assets Held for Resale | | | | 3,367 |
| Other Noncurrent Assets | | | | 478,084 |
| Unamortized Debt Expense | 60,296 | 10,178 | 70,474 | 50,856 |
| **Total Assets** | 4,333,009 | 590,356 | 4,923,365 | 11,915,770 |
| **Liabilities:** | | | | |
| Accounts Payable and Other Current Liabilities | 107,975 | 17,541 | 125,516 | 332,283 |
| Unearned Revenue | 10,973 | 838 | 11,811 | 3,537 |
| Securities Lending Obligation | | | | 626,370 |
| Accrued Interest | | 15 | 15 | |
| Due to: | | | | |
| Other Governmental Agencies | 735 | | 735 | 1,215 |
| Restricted Liabilities: | | | | |
| Accounts Payable and Other Current Liabilities | 43,917 | 15,603 | 59,520 | 17,439 |
| Unearned Revenue | 13,140 | | 13,140 | |
| Accrued Interest | 9,507 | 3,263 | 12,770 | 8,283 |
| Due to: | | | | |
| Other Governmental Agencies | 2,929 | | 2,929 | |
| Noncurrent Liabilities: | | | | |
| Due within One Year | 144,378 | 14,374 | 158,752 | 201,349 |
| Due in More Than One Year | 1,673,940 | 252,307 | 1,926,247 | 6,005,488 |
| **Total Liabilities** | 2,007,494 | 303,941 | 2,311,435 | 7,195,964 |
| **Net Assets:** | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,023,868 | 201,846 | 2,225,714 | 3,441,597 |
| Restricted for: | | | | |
| Debt Service | 105,108 | 30,860 | 135,968 | 26,985 |
| Education and Training | | | | 38 |
| Capital Projects | | 30,699 | 30,699 | 3,618 |
| Equipment Renewal and Replacement | | | | 586,234 |
| Employee Benefits Plans | | | | 203,127 |
| Perpetual Care: | | | | |
| Expendable | 3,071 | | 3,071 | |
| Nonexpendable | 10,727 | | 10,727 | |
| Unrestricted | 182,741 | 23,010 | 205,751 | 458,207 |
| **Total Net Assets** | $ 2,325,515 | $ 286,415 | $ 2,611,930 | $ 4,719,806 |

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

## Statement of Activities
### Year Ended September 30, 2007
(In Thousands)

| FUNCTION/PROGRAM ACTIVITIES | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS | PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS |
|---|---|---|---|---|
| **Primary Government:** | | | | |
| **Governmental Activities:** | | | | |
| General Government | $ 118,288 | $ 44,700 | $ 14,316 | $ 17,751 |
| Public Safety | 454,673 | 9,059 | 8,293 | 4,158 |
| Public Works | 144,806 | 39,090 | 1,021 | 2,652 |
| Sanitation | 2,786 | 268 | 19 | |
| Health Services | 91,544 | 24,401 | 8,503 | 242 |
| Culture and Recreation | 89,961 | 21,603 | 4,756 | 1,557 |
| Convention and Tourism | 193,702 | 19,067 | 3 | 29,744 |
| Urban Redevelopment and Housing | 13,322 | 1 | 12,439 | 704 |
| Welfare | 153,664 | 19 | 118,929 | 160 |
| Economic Development and Opportunity | 25,698 | 1,971 | 18,102 | 923 |
| Issuance Cost | (2,384) | | | |
| Amortization of Bond Premium | (3,595) | | | |
| Amortization of Refunding Charges | (5) | | | |
| Interest on Long-Term Debt | 54,098 | | | |
| **Total Governmental Activities** | 1,336,558 | 160,179 | 186,381 | 57,891 |
| **Business-Type Activities:** | | | | |
| Airport System | 64,482 | 53,115 | | 23,188 |
| Parking System | 8,525 | 10,236 | | |
| Environmental Services | 68,072 | 70,080 | | |
| **Total Business-Type Activities** | 141,079 | 133,431 | | 23,188 |
| **Total Primary Government** | $ 1,477,637 | $ 293,610 | $ 186,381 | $ 81,079 |
| **Discretely Presented Component Units:** | | | | |
| San Antonio Water System | $ 323,730 | $ 363,500 | $ - | $ 126,320 |
| CPS Energy | 1,803,745 | 1,770,086 | | 39,317 |
| San Antonio Development Agency | 505 | (16) | 57 | |
| San Antonio Education Facilities Corporation | 6 | 22 | | 5 |
| Port Authority of San Antonio | 30,308 | 30,195 | | 1,287 |
| San Antonio Housing Trust Foundation, Inc. | 703 | 9 | | 410 |
| San Antonio Local Development Company | 1,432 | 403 | | 408 |
| Westside Development Corporation | 129 | | | |
| Brooks Development Authority | 19,832 | 16,379 | | 2,429 |
| **Total Component Units** | $ 2,180,390 | $ 2,180,578 | $ 57 | $ 170,176 |

**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.



*Amounts are expressed in thousands*

## Statement of Activities
### Year Ended September 30, 2007
(In Thousands)

| NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|---|---|---|
| PRIMARY GOVERNMENT | | | |
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| $ (41,521) | $ - | $ (41,521) | $ - |
| (433,163) | | (433,163) | |
| (102,043) | | (102,043) | |
| (2,499) | | (2,499) | |
| (58,398) | | (58,398) | |
| (62,045) | | (62,045) | |
| (144,888) | | (144,888) | |
| (178) | | (178) | |
| (34,556) | | (34,556) | |
| (4,702) | | (4,702) | |
| 2,384 | | 2,384 | |
| 3,595 | | 3,595 | |
| 5 | | 5 | |
| (54,098) | | (54,098) | |
| (932,107) | | (932,107) | |
| | 11,821 | 11,821 | |
| | 1,711 | 1,711 | |
| | 2,008 | 2,008 | |
| | 15,540 | 15,540 | |
| (932,107) | 15,540 | (916,567) | |
| | | | 166,090 |
| | | | 5,658 |
| | | | (464) |
| | | | 21 |
| | | | 1,174 |
| | | | (284) |
| | | | (621) |
| | | | (129) |
| | | | (1,024) |
| | | | 170,421 |
| 326,342 | | 326,342 | |
| 224,480 | | 224,480 | |
| 5,308 | | 5,308 | |
| 30,236 | | 30,236 | |
| 63,878 | | 63,878 | |
| 4,088 | | 4,088 | |
| 257,687 | | 257,687 | |
| 54,027 | 11,099 | 65,126 | 144,771 |
| 26,530 | 1,973 | 28,503 | 4,774 |
| | | | 1,505 |
| | | | (4,999) |
| (6,404) | 6,404 | | |
| 986,172 | 19,476 | 1,005,648 | 146,051 |
| 54,065 | 35,016 | 89,081 | 316,472 |
| 2,271,450 | 251,399 | 2,522,849 | 4,403,334 |
| $ 2,325,515 | $ 286,415 | $ 2,611,930 | $ 4,719,806 |

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

# Balance Sheet
## Governmental Funds
### As of September 30, 2007
(In Thousands)

| | MAJOR FUNDS | | | | |
|---|---|---|---|---|---|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| **Assets:** | | | | | |
| Cash and Cash Equivalents | $ 2,011 | $ - | $ - | $ 7,308 | $ 9,319 |
| Investments | 67,008 | | | 114,200 | 181,208 |
| Receivables, Net | 78,874 | | | 14,402 | 93,276 |
| Due from: | | | | | |
| Other Funds | 45,418 | | | 3,011 | 48,429 |
| Other Governmental Agencies | 725 | | | 879 | 1,604 |
| Materials and Supplies, at Cost | 3,017 | | | 1,175 | 4,192 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | | 45,555 | 2 | 95,455 | 141,012 |
| Investments | | 54,888 | 348 | 403,051 | 458,287 |
| Receivables, Net | | 6,215 | 35,143 | 16,400 | 57,758 |
| Prepaid Expenditures | | | 14 | 25 | 39 |
| Deposits | | | | 261 | 261 |
| Due from: | | | | | |
| Other Funds | | 312 | 894 | 7,994 | 9,200 |
| Other Governmental Agencies | | | | 4,160 | 4,160 |
| **Total Assets** | $ 197,053 | $ 106,970 | $ 36,401 | $ 668,321 | $ 1,008,745 |
| **Liabilities and Fund Balances:** | | | | | |
| **Liabilities:** | | | | | |
| Vouchers Payable | $ 4,580 | $ - | $ - | $ 9,792 | $ 14,372 |
| Accounts Payable - Other | 4,278 | | | 7,921 | 12,199 |
| Accrued Payroll | 10,495 | | | 2,978 | 13,473 |
| Accrued Leave Payable | 6,810 | | | 1,641 | 8,451 |
| Unearned Revenue | 8,484 | | | 4,106 | 12,590 |
| Due to: | | | | | |
| Other Funds | 2,716 | | | 15,206 | 17,922 |
| Other Governmental Agencies | | | | 24 | 24 |
| Restricted Liabilities: | | | | | |
| Vouchers Payable | | | 4,358 | 30,558 | 34,916 |
| Accounts Payable - Other | | 19 | 2,615 | 3,042 | 5,676 |
| Accrued Payroll | | | 710 | 186 | 896 |
| Accrued Leave Payable | | | | 3 | 3 |
| Unearned Revenue | | 4,645 | 6,096 | 7,044 | 17,785 |
| Amounts Held in Trust | | | | 2,429 | 2,429 |
| Due to: | | | | | |
| Other Funds | | | 32,824 | 6,202 | 39,026 |
| Other Governmental Agencies | | | 302 | 2,627 | 2,929 |
| **Total Liabilities** | 37,363 | 4,664 | 46,905 | 93,759 | 182,691 |
| **Fund Balances:** | | | | | |
| Reserved: | | | | | |
| Reserved for Encumbrances | 13,713 | | | 176,922 | 190,635 |
| Reserved for Material and Supplies | 3,017 | | | 1,176 | 4,193 |
| Reserved for Prepaid Expenditures | | | 14 | 25 | 39 |
| Reserved for Debt Service | | 102,306 | | | 102,306 |
| Unreserved: | | | | | |
| Designated: General Fund | 62,662 | | | | 62,662 |
| Designated: Special Revenue Funds | | | | 3,003 | 3,003 |
| Designated: Permanent Funds | | | | 3,071 | 3,071 |
| Undesignated: Major Funds | 80,298 | | (10,518) | | 69,780 |
| Undesignated: Special Revenue Funds | | | | 180,110 | 180,110 |
| Undesignated: Capital Projects Funds | | | | 199,579 | 199,579 |
| Undesignated: Permanent Funds | | | | 10,676 | 10,676 |
| **Total Fund Balances** | 159,690 | 102,306 | (10,504) | 574,562 | 826,054 |
| **Total Liabilities and Fund Balances** | $ 197,053 | $ 106,970 | $ 36,401 | $ 668,321 | $ 1,008,745 |

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



*Amounts are expressed in thousands*

# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

## As of September 30, 2007

(In Thousands)

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

| | | |
|---|---|---|
| **Fund Balances - Total Governmental Funds** | | $ 826,054 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | |
| **Governmental Capital Assets:** | | |
| Land | 1,341,567 | |
| Construction in Progress | 214,187 | |
| Buildings | 668,171 | |
| Improvements | 237,910 | |
| Infrastructure | 2,246,274 | |
| Machinery and Equipment | 190,856 | |
| Less: Accumulated Depreciation | (1,751,997) | |
| **Total Governmental Capital Assets** | | 3,146,968 |
| Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds (See Note 14). | | 6,851 |
| 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. | | 834 |
| 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 governmental activities in the Statement of Net Assets. | | 100,748 |
| 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 | (1,516,623) | |
| Commercial Paper Payable | (4,000) | |
| Unamortized Discount/(Premium) on Bonds, Net | (82,099) | |
| Deferred Amount on Refunding | 17,283 | |
| Leases Payable | (13,927) | |
| Notes Payable | (56,171) | |
| Other Payables | (4,619) | |
| Unamortized Debt Expense | 60,296 | |
| Accrued Interest | (9,507) | |
| Arbitrage Rebate | (828) | |
| Compensated Absences | (145,745) | |
| | | (1,755,940) |
| **Net Assets of Governmental Activities** | | $ 2,325,515 |

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, 2007
(In Thousands)

| | MAJOR FUNDS | | | | |
|---|---|---|---|---|---|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| **Revenues:** | | | | | |
| Taxes: | | | | | |
| Property | $ 202,876 | $ 118,113 | $ - | $ 4,821 | $ 325,810 |
| General Sales and Use | 189,753 | | | 34,727 | 224,480 |
| Selective Sales and Use | 5,308 | | | | 5,308 |
| Gross Receipts Business | 30,236 | | | | 30,236 |
| Occupancy | | | | 63,892 | 63,892 |
| Penalties and Interest on Delinquent Taxes | 2,278 | 1,312 | | 111 | 3,701 |
| Licenses and Permits | 6,927 | | | | 6,927 |
| Intergovernmental | 4,036 | | 144,014 | 54,617 | 202,667 |
| Revenues from Utilities | 257,687 | | | | 257,687 |
| Charges for Services | 25,221 | | 736 | 110,993 | 136,950 |
| Fines and Forfeits | 15,114 | | | | 15,114 |
| Miscellaneous | 7,491 | | 826 | 16,181 | 24,498 |
| Investment Earnings | 6,815 | 7,900 | 21 | 35,314 | 50,050 |
| Contributions | | | | 29,744 | 29,744 |
| In-Kind Contributions | | | 13,786 | | 13,786 |
| **Total Revenues** | 753,742 | 127,325 | 159,383 | 350,400 | 1,390,850 |
| **Expenditures:** | | | | | |
| Current: | | | | | |
| General Government | 74,049 | 403 | 1,184 | 39,332 | 114,968 |
| Public Safety | 436,295 | | 12,369 | 2,000 | 450,664 |
| Public Works | 10,760 | | 14,587 | 76,086 | 101,433 |
| Health Services | 12,928 | | 18,279 | 61,143 | 92,350 |
| Sanitation | 2,824 | | | | 2,824 |
| Welfare | 38,673 | | 113,696 | 1,508 | 153,877 |
| Culture and Recreation | 68,901 | | 2,911 | 13,710 | 85,522 |
| Convention and Tourism | | | | 60,288 | 60,288 |
| Urban Redevelopment and Housing | | | 449 | 13,579 | 14,028 |
| Economic Development and Opportunity | 3,450 | | 1,626 | 19,745 | 24,821 |
| Capital Projects | | | | 345,047 | 345,047 |
| Debt Service: | | | | | |
| Principal Retirement | | 80,215 | | 1,620 | 81,835 |
| Interest | | 57,190 | | | 57,190 |
| Arbitrage | | | | 42 | 42 |
| Issuance Costs | | 2,451 | | 1,106 | 3,557 |
| **Total Expenditures** | 647,880 | 140,259 | 165,101 | 635,206 | 1,588,446 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 105,862 | (12,934) | (5,718) | (284,806) | (197,596) |
| **Other Financing Sources (Uses)** | | | | | |
| Issuance of Long-Term Debt | | 205,395 | | 176,665 | 382,060 |
| Payments to Refunded Bond Escrow Agent | | (210,643) | | | (210,643) |
| Issuance of Notes and Loans | | | | 10,966 | 10,966 |
| Issuance of Commercial Paper | | | | 4,000 | 4,000 |
| Premium/(Discount) on Long-Term Debt | | 7,673 | | (534) | 7,139 |
| Transfers In | 15,972 | 20,372 | 7,546 | 291,200 | 335,090 |
| Transfers Out | (123,620) | | (1,503) | (225,152) | (350,275) |
| **Total Other Financing Sources (Uses)** | (107,648) | 22,797 | 6,043 | 257,145 | 178,337 |
| **Net Change in Fund Balances** | (1,786) | 9,863 | 325 | (27,661) | (19,259) |
| Fund Balances, October 1, as restated | 161,476 | 92,443 | (10,829) | 602,223 | 845,313 |
| **Fund Balances, September 30** | $ 159,690 | $ 102,306 | $ (10,504) | $ 574,562 | $ 826,054 |

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



*Amounts are expressed in thousands*

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

### Year Ended September 30, 2007

(In Thousands)

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

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | $ (19,259) |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. | | |
| Expenditures for Capital Assets | 239,605 | |
| Less: Current Year Depreciation | (95,375) | |
| Less: Current Year Deletions | (2,866) | 141,364 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | (1,067) |
| 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 | (397,026) | |
| Premium, Discount and Deferred Charges | (7,139) | |
| Bond Issuance Costs | 3,557 | |
| Payments to Escrow Agent | 210,643 | |
| Amortization of Bond Premiums and Discounts, Deferred Charges, and Bond Issuance Costs, Net | 9,185 | |
| Lease Purchase Amounts Assumed by Business-type Activities | 3,158 | |
| Principal Payments | 81,835 | (95,787) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (See Note 14). | | (6,120) |
| 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. | | 34,934 |
| **Change in Net Assets of Governmental Activities** | | $ 54,065 |

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

## Statement of Net Assets
## Proprietary Funds
### As of September 30, 2007
(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 | $ 594 | $ 519 | $ 1,113 | $ 3,624 |
| Investments | 18,244 | 15,935 | 34,179 | 111,346 |
| Receivables: | | | | |
| Other Accounts, Net | 2,766 | 86 | 2,852 | 768 |
| Accrued Interest | 184 | 158 | 342 | 937 |
| Accrued Revenue | 3,186 | 5,754 | 8,940 | 1 |
| Due from: | | | | |
| Other Funds | 204 | | 204 | 50 |
| Other Governmental Agencies, Net | | | | 70 |
| Materials and Supplies, at Cost | 563 | 214 | 777 | 1,298 |
| Prepaid Expenses | 17 | | 17 | 960 |
| Deposits | | | | 36 |
| **Total Unrestricted Assets** | 25,758 | 22,666 | 48,424 | 119,090 |
| **Restricted Assets:** | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 17,390 | 1,766 | 19,156 | |
| Investments | 13,611 | 277 | 13,888 | |
| Receivables - Accrued Interest | 291 | 9 | 300 | |
| Due from Other Funds | 364 | | 364 | |
| Construction Accounts: | | | | |
| Cash and Cash Equivalents | 9,223 | 269 | 9,492 | |
| Investments | 90,599 | 7,980 | 98,579 | |
| Receivables - Accrued Interest | 1,149 | 87 | 1,236 | |
| Due from Other Funds | 30 | | 30 | |
| Improvement and Contingency Accounts: | | | | |
| Cash and Cash Equivalents | 1,369 | 78 | 1,447 | |
| Investments | 42,049 | 2,400 | 44,449 | |
| Receivables - Accrued Interest | 413 | 25 | 438 | |
| Due from Other Funds | 1,346 | | 1,346 | |
| Other Restricted Accounts: | | | | |
| Cash and Cash Equivalents | 8 | | 8 | |
| Investments | 263 | | 263 | |
| Receivables - Accrued Interest | 42 | | 42 | |
| Accrued Revenue | 807 | | 807 | |
| **Total Restricted Assets** | 178,954 | 12,891 | 191,845 | |
| **Total Current Assets** | 204,712 | 35,557 | 240,269 | 119,090 |
| **Noncurrent Assets:** | | | | |
| **Capital Assets:** | | | | |
| Land | 4,543 | 9,018 | 13,561 | |
| Buildings | 144,248 | 30,362 | 174,610 | 178 |
| Improvements | 210,372 | 7,013 | 217,385 | 530 |
| Machinery and Equipment | 11,189 | 6,991 | 18,180 | 137,654 |
| Construction in Progress | 97,999 | | 97,999 | |
| **Total Capital Assets** | 468,351 | 53,384 | 521,735 | 138,362 |
| Less: Accumulated Depreciation | 160,379 | 16,495 | 176,874 | 87,851 |
| **Net Capital Assets** | 307,972 | 36,889 | 344,861 | 50,511 |
| Unamortized Debt Expense | 9,134 | 1,044 | 10,178 | |
| **Total Noncurrent Assets** | 317,106 | 37,933 | 355,039 | 50,511 |
| **Total Assets** | $ 521,818 | $ 73,490 | $ 595,308 | $ 169,601 |

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



*Amounts are expressed in thousands*

## Statement of Net Assets
## Proprietary Funds
### As of September 30, 2007
(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 | $ 505 | $ 1,711 | $ 2,216 | $ 7,829 |
| Accounts Payable-Other | 11,913 | 1,961 | 13,874 | 6,108 |
| Claims Payable | | | | 52,947 |
| Accrued Payroll | 636 | 815 | 1,451 | 1,047 |
| Current Portion of Accrued Leave Payable | 342 | 303 | 645 | 433 |
| Unearned Revenue | 838 | | 838 | 23 |
| Accrued Interest | | 15 | 15 | |
| Lease Purchase | | | | 236 |
| Due to Other Funds | | 17 | 17 | |
| **Total Payable from Current Unrestricted Assets** | 14,234 | 4,822 | 19,056 | 68,623 |
| **Payable from Restricted Assets:** | | | | |
| Vouchers Payable | 15,547 | 56 | 15,603 | |
| Accrued Bond Interest | 3,052 | 211 | 3,263 | |
| Current Portion of Bonds | 10,155 | 660 | 10,815 | |
| Due to Other Funds | 1,982 | 6 | 1,988 | |
| Current Portion of Unamortized Premium/Discount | 1,272 | 60 | 1,332 | |
| Current Portion of Deferred Amount on Refunding | (97) | | (97) | |
| Current Portion of Lease Purchase | | 869 | 869 | |
| Current Portion of Accrued Landfill Postclosure Costs | | 425 | 425 | |
| Other Payables | 378 | 7 | 385 | |
| **Total Payable from Restricted Assets** | 32,289 | 2,294 | 34,583 | |
| **Total Current Liabilities** | 46,523 | 7,116 | 53,639 | 68,623 |
| **Noncurrent Liabilities:** | | | | |
| Revenue Bonds, Net of Current Portion | 218,440 | 22,115 | 240,555 | |
| Unamortized Premium/Discount (Net of Current Portion) | 8,181 | 330 | 8,511 | |
| Deferred Amount on Refunding (Net of Current Portion) | (2,840) | | (2,840) | |
| Accrued Leave Payable (Net of Current Portion) | 1,708 | 1,514 | 3,222 | 2,164 |
| Lease Purchase (Net of Current Portion) | | 1,809 | 1,809 | 302 |
| Due to Other Governmental Agencies | | | | 711 |
| Accrued Landfill Postclosure Costs (Net of Current Portion) | | 1,050 | 1,050 | |
| **Total Noncurrent Liabilities** | 225,489 | 26,818 | 252,307 | 3,177 |
| **Total Liabilities** | 272,012 | 33,934 | 305,946 | 71,800 |
| **Net Assets:** | | | | |
| Invested In Capital Assets, Net of Related Debt | 181,816 | 20,030 | 201,846 | 49,973 |
| Restricted: | | | | |
| Debt Service | 28,597 | 2,263 | 30,860 | |
| Capital Projects | 27,972 | 2,727 | 30,699 | |
| Unrestricted | 11,421 | 14,536 | 25,957 | 47,828 |
| **Total Net Assets** | $ 249,806 | $ 39,556 | $ 289,362 | $ 97,801 |
| Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds | | | (2,947) | |
| **Net Assets of Business-Type Activities** | | | $ 286,415 | |

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, 2007
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| **Operating Revenues:** | | | | |
| Charges for Services | $ 53,101 | $ 80,316 | $ 133,417 | $ 224,019 |
| **Total Operating Revenues** | 53,101 | 80,316 | 133,417 | 224,019 |
| **Operating Expenses:** | | | | |
| Personal Services | 22,318 | 30,989 | 53,307 | 34,196 |
| Contractual Services | 3,787 | 22,471 | 26,258 | 18,808 |
| Commodities | 1,564 | 7,176 | 8,740 | 2,700 |
| Materials | | | | 17,699 |
| Claims | | | | 94,817 |
| Other | 5,916 | 14,954 | 20,870 | 19,356 |
| Depreciation | 9,136 | 1,586 | 10,722 | 13,845 |
| **Total Operating Expenses** | 42,721 | 77,176 | 119,897 | 201,421 |
| **Operating Income** | 10,380 | 3,140 | 13,520 | 22,598 |
| **Nonoperating Revenues (Expenses):** | | | | |
| Investment Earnings | 10,035 | 1,064 | 11,099 | 3,942 |
| Other Nonoperating Revenue | 12,012 | 1,332 | 13,344 | 1,995 |
| Gain on Sale of Capital Assets | 14 | | 14 | 1,040 |
| Interest and Debt Expense | (12,110) | (1,379) | (13,489) | (24) |
| Other Nonoperating Expense | (10,253) | (838) | (11,091) | |
| **Total Nonoperating Revenues (Expenses)** | (302) | 179 | (123) | 6,953 |
| **Change in Net Assets before Contributions and Transfers** | 10,078 | 3,319 | 13,397 | 29,551 |
| Capital Contributions | 11,817 | | 11,817 | |
| **Transfers In (Out)** | | | | |
| Transfers In | 6 | 8,417 | 8,423 | 11,161 |
| Transfers Out | (312) | (1,707) | (2,019) | (2,380) |
| **Total Transfers In (Out)** | (306) | 6,710 | 6,404 | 8,781 |
| **Change In Net Assets** | 21,589 | 10,029 | 31,618 | 38,332 |
| Net Assets - October 1, as restated | 228,217 | 29,527 | | 59,469 |
| **Net Assets - September 30** | $ 249,806 | $ 39,556 | | $ 97,801 |
| Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds | | | 3,398 | |
| **Change in Net Assets of Business-Type Activities** | | | $ 35,016 | |

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



*Amounts are expressed in thousands*

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

# Statement of Cash Flows
## Proprietary Funds
### Year Ended September 30, 2007
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTALS | INTERNAL SERVICE FUNDS |
| **Cash Flows from Operating Activities:** | | | | |
| Cash Received from Customers | $ 50,212 | $ 79,495 | $ 129,707 | $ 223,618 |
| Cash Received from Interfund Services Provided | | | | (8) |
| Cash Received for Interfund Services Used | | | | 513 |
| Cash Payments to Suppliers for Goods and Services | (8,468) | (44,859) | (53,327) | (149,345) |
| Cash Payments to Employees for Service | (21,612) | (30,864) | (52,476) | (34,192) |
| Cash Received from Other Nonoperating Revenues | 12,012 | 1,268 | 13,280 | 1,995 |
| **Net Cash Provided by Operating Activities** | 32,144 | 5,040 | 37,184 | 42,581 |
| **Cash Flows from Noncapital Financing Activities:** | | | | |
| Transfers In from Other Funds | (685) | 8,466 | 7,781 | 11,161 |
| Transfers Out to Other Funds | 416 | (1,690) | (1,274) | (2,480) |
| Due from Other Funds | | | | (1,886) |
| **Net Cash Provided by (Used for) Noncapital Financing Activities** | (269) | 6,776 | 6,507 | 6,795 |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Acquisitions and Construction of Capital Assets | (34,147) | 220 | (33,927) | (13,592) |
| Principal Payments on Long-Term Debt | (9,895) | (620) | (10,515) | (100) |
| Interest Paid on Long-Term Debt | (12,262) | (1,295) | (13,557) | |
| Debt Issuance Costs | (9,640) | | (9,640) | |
| Principal Payments on Notes | | (775) | (775) | (192) |
| Interest Paid on Notes | | (74) | (74) | (24) |
| Proceeds from Sale of Assets | 14 | | 14 | 1,040 |
| **Net Cash (Used for) Capital and Related Financing Activities** | (65,930) | (2,544) | (68,474) | (12,868) |
| **Cash Flows from Investing Activities:** | | | | |
| Purchases of Investment Securities | (340,099) | (54,173) | (394,272) | (226,380) |
| Maturity of Investment Securities | 373,566 | 44,395 | 417,961 | 184,252 |
| Investment Earnings | 10,166 | 992 | 11,158 | 3,739 |
| **Net Cash Provided by (Used for) Investing Activities** | 43,633 | (8,786) | 34,847 | (38,389) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 9,578 | 486 | 10,064 | (1,881) |
| Cash and Cash Equivalents, October 1 | 19,006 | 2,145 | 21,151 | 5,505 |
| **Cash and Cash Equivalents, September 30** | $ 28,584 | $ 2,631 | $ 31,215 | $ 3,624 |

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, 2007
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTALS | INTERNAL SERVICE FUNDS |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities:** | | | | |
| Operating Income | $ 10,380 | $ 3,140 | $ 13,520 | $ 22,598 |
| **Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:** | | | | |
| Depreciation | 9,136 | 1,586 | 10,722 | 13,845 |
| Other Nonoperating Revenues | 12,012 | 1,268 | 13,280 | 1,995 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) Decrease In Other Accounts Receivable | (143) | 93 | (50) | 936 |
| (Increase) In Accrued Revenues | (3,159) | (904) | (4,063) | |
| (Increase) In Due from Other Governmental Agencies | | | | (11) |
| (Increase) Decrease In Materials and Supplies | (51) | 6 | (45) | 209 |
| (Increase) Decrease In Due from Other Funds | | 6 | 6 | 513 |
| Increase (Decrease) In Due to Other Funds | | | | (58) |
| Decrease In Prepaid Expenses | | | | 59 |
| Decrease In Deposits | | | | 3 |
| Increase (Decrease) In Vouchers Payable | (23) | 34 | 11 | 483 |
| Increase (Decrease) In Accounts Payable and Other Payables | 2,874 | (304) | 2,570 | 3,282 |
| Increase In Accrued Payroll | 74 | 49 | 123 | 44 |
| Increase (Decrease) In Accrued Leave Payable | 631 | 76 | 707 | (40) |
| Increase (Decrease) In Unearned Revenue | 413 | (10) | 403 | (1,277) |
| **Net Cash Provided by Operating Activities** | $ 32,144 | $ 5,040 | $ 37,184 | $ 42,581 |
| **Noncash Investing, Capital and Financing Activities:** | | | | |
| Acquisition of Assets Purchased from Governmental Funds | | 2,499 | 2,499 | |
| Assumption of Lease Obligations from Governmental Funds | | (3,338) | (3,338) | |
| Change in Accounting Estimate | | (64) | (64) | |

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



*Amounts are expressed in thousands*

## Statement of Fiduciary Net Assets
## Fiduciary Funds
### As of September 30, 2007
(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUNDS | AGENCY FUNDS |
|---|---|---|---|
| **Assets:** | | | |
| **Current Assets:** | | | |
| Cash and Cash Equivalents | $ 77,966 | $ 1 | $ 7,416 |
| Security Lending Collateral | 233,592 | | |
| Investments, at Fair Value: | | | |
| U.S. Government and Agency Issues | 112,548 | 21 | 1,931 |
| Corporate Bonds | 295,661 | | |
| Preferred and Common Stock | 1,205,569 | | |
| Other | 703,063 | | |
| Total Investments, at Fair Value | 2,316,841 | 21 | 1,931 |
| Receivables: | | | |
| Other Accounts | 4,814 | | 328 |
| Accrued Interest | 6,289 | | 18 |
| Accrued Revenue | 2,054 | | |
| Prepayments | 19 | | |
| **Total Current Assets** | 2,641,575 | 22 | 9,693 |
| **Capital Assets:** | | | |
| Machinery and Equipment | 44 | | |
| Buildings | 849 | | |
| **Total Capital Assets** | 893 | | |
| Less: Accumulated Depreciation | 355 | | |
| **Net Capital Assets** | 538 | | |
| **Total Assets** | 2,642,113 | 22 | $ 9,693 |
| **Liabilities:** | | | |
| Vouchers Payable | 5,837 | | $ 10 |
| Accounts Payable - Other | 9,813 | | 9,013 |
| Accrued Payroll | 81 | | |
| Due to Other Funds | | | 670 |
| Unearned Revenue | 305 | | |
| Securities Lending Obligation | 233,592 | | |
| **Total Liabilities** | 249,628 | | $ 9,693 |
| **Net Assets:** | | | |
| Held in Trust for Pension Benefits and Other Purposes | $ 2,392,485 | $ 22 | |

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



*Amounts are expressed in thousands*

## Statement of Changes in Fiduciary Net Assets
## Fiduciary Funds
### Year Ended September 30, 2007
(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUNDS |
|---|---|---|
| **Additions:** | | |
| **Contributions:** | | |
| Employer | $ 73,779 | $ - |
| Employee | 30,975 | |
| **Total Contributions** | 104,754 | |
| **Investment Earnings:** | | |
| Net Increase in Fair Value of Investments | 302,540 | |
| Real Estate Income, Net | 5,954 | |
| Interest and Dividends | 41,188 | 1 |
| Securities Lending | 11,861 | |
| Other Income | 3,365 | |
| **Total Investment Earnings** | 364,908 | 1 |
| Less Investment Expenses: | | |
| Investment Management Fees and Custodian Fees | (13,988) | |
| Securities Lending Expenses: | | |
| Borrower Rebates | (11,027) | |
| Lending Fees | (292) | |
| **Net Investment Income** | 339,601 | 1 |
| **Total Additions** | 444,355 | 1 |
| **Deductions:** | | |
| Benefits | 93,934 | |
| Refunds of Contributions | 341 | |
| Administrative Expense | 2,089 | 12 |
| Salaries, Wage, and Employee Benefits | 593 | |
| **Total Deductions** | 96,957 | 12 |
| **Change in Net Assets** | 347,398 | (11) |
| Net Assets - October 1 | 2,045,087 | 33 |
| **Net Assets - September 30** | $ 2,392,485 | $ 22 |

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

## Statement of Net Assets
## Discretely Presented Component Units
### As of September 30, 2007
(In Thousands)

| | SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|---|---|---|---|
| **Assets:** | | | | |
| **Current Assets:** | | | | |
| **Unrestricted Assets:** | | | | |
| Cash and Cash Equivalents | $ 14,042 | $ 41,344 | $ 29,296 | $ 84,682 |
| Cash Collateral from Securities Lending | | 626,370 | | 626,370 |
| Investments | 189,285 | 270,009 | 3,446 | 462,740 |
| Receivables: | | | | |
| Notes | | | 7,520 | 7,520 |
| Other Accounts, Net | 39,952 | 151,279 | 733 | 191,964 |
| Accrued Interest | 2,192 | 22,513 | 2,026 | 26,731 |
| Materials and Supplies, at Cost | 5,075 | 133,010 | 61 | 138,146 |
| Due from Other Governmental Agencies | | | 2,948 | 2,948 |
| Prepaid Expenses | 2,060 | 50,050 | 224 | 52,334 |
| Other Assets | | | 530 | 530 |
| **Total Unrestricted Assets** | 252,606 | 1,294,575 | 46,784 | 1,593,965 |
| **Restricted Assets:** | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 6,647 | 5,963 | | 12,610 |
| Investments | 19,986 | | | 19,986 |
| Receivables-Accrued Interest | | 21 | | 21 |
| Construction Accounts: | | | | |
| Cash and Cash Equivalents | 3,839 | 14 | | 3,853 |
| Investments | 195,015 | 285,042 | | 480,057 |
| Receivables-Accrued Interest | | 2,718 | | 2,718 |
| Ordinance Accounts: | | | | |
| Cash and Cash Equivalents | | 72,496 | | 72,496 |
| Investments | | 508,972 | | 508,972 |
| Receivables - Accrued Interest | | 2,341 | | 2,341 |
| Other Restricted Accounts: | | | | |
| Cash and Cash Equivalents | | 142,342 | 8,665 | 151,007 |
| Investments | 6,729 | 518,482 | | 525,211 |
| Deferred Charges | | | 2,304 | 2,304 |
| Receivables | | | 3,871 | 3,871 |
| Receivables - Accrued Interest | | 2,611 | | 2,611 |
| **Total Restricted Assets** | 232,216 | 1,541,002 | 14,840 | 1,788,058 |
| **Total Current Assets** | 484,822 | 2,835,577 | 61,624 | 3,382,023 |
| **Noncurrent Assets:** | | | | |
| **Capital Assets:** | | | | |
| Land | 112,788 | 60,080 | 13,379 | 186,247 |
| Infrastructure | | | 53,346 | 53,346 |
| Buildings | | | 200,056 | 200,056 |
| Utility Plant in Service | 2,792,757 | 7,808,688 | | 10,601,445 |
| Machinery and Equipment | 118,966 | | 2,953 | 121,919 |
| Construction in Progress | 371,388 | 419,795 | 28,557 | 819,740 |
| Utility Property Leased | | 18,785 | | 18,785 |
| Nuclear Fuel, Net | | 521,229 | | 521,229 |
| Nonutility Property - Land | | 12,599 | | 12,599 |
| **Total Capital Assets** | 3,395,899 | 8,841,176 | 298,291 | 12,535,366 |
| Less: Accumulated Depreciation | 926,250 | 3,546,384 | 61,292 | 4,533,926 |
| **Net Capital Assets** | 2,469,649 | 5,294,792 | 236,999 | 8,001,440 |
| Assets Held for Resale | 2,760 | | 607 | 3,367 |
| Other Noncurrent Assets | 1,481 | 476,603 | | 478,084 |
| Unamortized Debt Expense | 13,442 | 37,414 | | 50,856 |
| **Total Noncurrent Assets** | 2,487,332 | 5,808,809 | 237,606 | 8,533,747 |
| **Total Assets** | $ 2,972,154 | $ 8,644,386 | $ 299,230 | $ 11,915,770 |

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



*Amounts are expressed in thousands*

## Statement of Net Assets
## Discretely Presented Component Units
### As of September 30, 2007
(In Thousands)

| | SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| **Current Liabilities:** | | | | |
| **Payable from Current Unrestricted Assets:** | | | | |
| Accounts Payable and Other Current Liabilities | $ 27,420 | $ 289,606 | $ 13,715 | $ 330,741 |
| Sewer Service Collections Payable | 332 | | | 332 |
| Unearned Revenues | | | 3,537 | 3,537 |
| Securities Lending Obligation | | 626,370 | | 626,370 |
| Notes and Lease Payables | 456 | | 754 | 1,210 |
| Due to Other Governmental Agencies | | | 1,215 | 1,215 |
| Current Portion of Long-term Lease/Notes Payable | 420 | 22,561 | 875 | 23,856 |
| Current Portion of Other Payables | 3,338 | 2,529 | 4,991 | 10,858 |
| **Total Payable from Current Unrestricted Assets** | 31,966 | 941,066 | 25,087 | 998,119 |
| **Payable from Restricted Assets:** | | | | |
| Accrued Bond and Certificate Interest | 8,283 | | | 8,283 |
| Current Portion of Bonds and Certificates | 24,880 | 141,755 | | 166,635 |
| Other Payables | 17,439 | | | 17,439 |
| **Total Payable from Restricted Assets:** | 50,602 | 141,755 | | 192,357 |
| **Total Current Liabilities** | 82,568 | 1,082,821 | 25,087 | 1,190,476 |
| **Noncurrent Liabilities:** | | | | |
| Revenue Bonds, Net of Current Portion | 1,258,630 | 2,969,100 | | 4,227,730 |
| Commercial Paper | 237,360 | 350,000 | | 587,360 |
| Unamortized Premium on New Series Bonds | 13,573 | 104,212 | | 117,785 |
| Unamortized Discount on New Series Bonds | (11,867) | | | (11,867) |
| Deferred Amount on Refunding | (27,574) | (95,761) | | (123,335) |
| Long-Term Lease/Notes Payable (Net of Current Portion) | 571 | 543,333 | 84,130 | 628,034 |
| Other Payables (Net of Current Portion) | 1,881 | 567,285 | 10,615 | 579,781 |
| **Total Noncurrent Liabilities** | 1,472,574 | 4,438,169 | 94,745 | 6,005,488 |
| **Total Liabilities** | 1,555,142 | 5,520,990 | 119,832 | 7,195,964 |
| **Net Assets:** | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,177,436 | 2,118,261 | 145,900 | 3,441,597 |
| Restricted for: | | | | |
| Equipment Renewal and Replacement | | 583,809 | 2,425 | 586,234 |
| Debt Service | 18,350 | 5,984 | 2,651 | 26,985 |
| Employee Benefit Plans | | 203,127 | | 203,127 |
| Capital Projects | | | 3,618 | 3,618 |
| Education and Training | | | 38 | 38 |
| Unrestricted | 221,226 | 212,215 | 24,766 | 458,207 |
| **Total Net Assets** | $ 1,417,012 | $ 3,123,396 | $ 179,398 | $ 4,719,806 |

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



*Amounts are expressed in thousands*

## Statement of Activities
## Discretely Presented Component Units
### Year Ended September 30, 2007
(In Thousands)

| | | PROGRAM REVENUES | | |
|---|---|---|---|---|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS |
| **San Antonio Water System** | $ 323,730 | $ 363,500 | $ - | $ 126,320 |
| **CPS Energy** | 1,803,745 | 1,770,086 | | 39,317 |
| **Nonmajor Component Units** | 52,915 | 46,992 | 57 | 4,539 |
| **Total** | $ 2,180,390 | $ 2,180,578 | $ 57 | $ 170,176 |

**General Revenues:**
Investment Earnings
Miscellaneous
Adjustment for STP Pension Cost
Special Items

**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.



*Amounts are expressed in thousands*

## Statement of Activities
## Discretely Presented Component Units
### Year Ended September 30, 2007
(In Thousands)

| NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|---|---|---|
| SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
| $ 166,090 | $ - | $ - | $ 166,090 |
| | 5,658 | | 5,658 |
| | | (1,327) | (1,327) |
| 166,090 | 5,658 | (1,327) | 170,421 |
| 20,819 | 121,694 | 2,258 | 144,771 |
| | | 4,774 | 4,774 |
| | 1,505 | | 1,505 |
| (4,999) | | | (4,999) |
| 15,820 | 123,199 | 7,032 | 146,051 |
| 181,910 | 128,857 | 5,705 | 316,472 |
| 1,235,102 | 2,994,539 | 173,693 | 4,403,334 |
| $ 1,417,012 | $ 3,123,396 | $ 179,398 | $ 4,719,806 |

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

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

## Comprehensive Annual Financial Report
## Table of Notes to Financial Statements
Year Ended September 30, 2007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## 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 (blended), and (c) component units, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

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

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

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

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2007, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Blended Component Units

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

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

**Convention Center Hotel Finance Corporation**
100 Military Plaza,
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact: Robert Peche
Telephone No. (210) 207-8040

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

**Empowerment Zone Development Corporation**
100 Military Plaza,
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact: Robert Peche
Telephone No. (210) 207-8040

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio. The EZDC is fully blended within Fund 28, Community Development Program, in the Grants section. EZDC has neither assets nor obligations and has incurred expenditures of $69 during fiscal year 2007 that were paid with CDBG funding. Financial statements are not audited or separately available.

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

The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including three City Council members of San Antonio. 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.

## 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 three City Council members of San Antonio, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. Contribution rates for the City, uniform active employees, and retirees are established pursuant to the Fire and Police collective bargaining agreements.

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

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

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

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

**San Antonio Industrial Development Authority**
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Robert Peche
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 Texas Municipal Facilities Corporation**
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

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

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

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

### 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 will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City has the ability to impose its will on this organization as the City Council has the power to remove board members by adopting a resolution.

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

CPS Energy, a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS Energy is governed by a board of trustees, which is comprised of four members appointed by the City Council of San Antonio and the Mayor of the City as an ex-officio member. In 2006, City Public Service changed its name to CPS Energy. The user rates for services and charges and the issuance of bonds are approved by the City Council.

## 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

The 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 of San Antonio municipal golf facilities. The 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 for City staff to be appointed by the City Manager; and six members appointed by the City Council of San Antonio. While this entity was created in fiscal year 2007, operations did not begin until fiscal year 2008. As such, MGA-SA has no financial information available for fiscal year 2007.

**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

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

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

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

## 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: Robert Peche
Telephone No. (210) 207-8040

The 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 the SAEFC to issue revenue bonds for these purposes on behalf of the City, but the bonds are not obligations of the City. SAEFC is governed by an eleven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will, and the City reserves the right to terminate and dissolve the 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

The 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 of San Antonio. 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. SAEAPFC's fiscal year ends January 31. Since the entity has not completed a full year of operations as of September 30, 2007 there are no financial statements available for the City's fiscal year 2007 CAFR.

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

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

## 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: Robert Peche
*Telephone No. (210) 207-8040*

The 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). The 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, NBRP that 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 all 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, in 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.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Discretely Presented Component Units (Continued)

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

The Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the Westside of San Antonio. WDC seeks to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, the 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. The 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 the WDC, comprising of 17 members.

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

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

### Related Organizations

The City Council of San Antonio appoints the members to the board of commissioners for the San Antonio Housing Authority (SAHA); however, the City's accountability for this entity does not extend beyond making appointments to the board of commissioners and the coordination and approval of strategic plans.

### 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. The 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 the 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.

# Note 1 Summary of Significant Accounting Policies (Continued)

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

**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 debt expense, and long-term obligations, such as debt, are now reported in the governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

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

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

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

## Fund Accounting

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

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

# Note 1 Summary of Significant Accounting Policies (Continued)

## Fund Accounting (Continued)

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

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

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

*Governmental Funds*

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

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

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

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

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

*Proprietary Funds*

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

# Note 1 Summary of Significant Accounting Policies (Continued)

## Fund Accounting (Continued)

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

### *Fiduciary Funds*

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

## Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interests 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 into three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Further descriptions of these three categories follow. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are additionally reported as program revenues.

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

## Note 1 Summary of Significant Accounting Policies (Continued)

### Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

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

The City's proprietary funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The City and its discretely presented major proprietary component units, CPS Energy and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

# Note 1 Summary of Significant Accounting Policies (Continued)

## Measurement Focus and Basis of Accounting (Continued)

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. 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 when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2007 were recorded net of expenses incurred to support the applicable activities. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs and payments to the City.

SAWS' principal operating revenues are charges to customers for water, wastewater, water supply, 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 investment income, 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 2007, the City implemented the following GASB Statement with no effect to the City's financials other than additional component unit disclosures; see Note 9, Postemployment Retirement Benefits and the related Pension Schedules:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, with modifications to reflect differences between pension plans and OPEB plans.

## Future GASB Statement Implementations

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45).

## Note 1 Summary of Significant Accounting Policies (Continued)

### Future GASB Statement Implementations (Continued)

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* establishes criteria that governments will use to determine if a certain transaction should be regarded as a sale or a collateralized borrowing, requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. The requirements for this Statement are effective for fiscal periods beginning after December 15, 2006.

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

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27,* aligns the reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* The requirements for this Statement are effective for fiscal periods beginning after June 15, 2007.

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

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

The City has not fully determined the effects that implementation of Statements No. 45 and No. 47 through No. 52 will have on the City's financial statements.

# Note 1 Summary of Significant Accounting Policies (Continued)

## Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's 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, 2007, 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 had 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.

## Capital Assets and Depreciation

### *Primary Government (City)*

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

# Note 1 Summary of Significant Accounting Policies (Continued)

## Capital Assets and Depreciation (Continued)

| 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 |

During fiscal year 2007, the infrastructure capitalization threshold was increased from $25 to $100 to provide accounting consistency with other construction type assets. Infrastructure previously capitalized, prior to the policy change, will continue to be capitalized and depreciated as originally scheduled.

***CPS Energy***

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 short-term investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2007.

CPS Energy amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-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 the STP generation that is available for sale to CPS Energy customers. The charge is included in the monthly fuel expense. For further discussion regarding the STP, see Note 10, CPS Energy South Texas Project (STP).

The estimated useful lives of capital assets are as follows:

| | |
|---|---|
| Buildings and structures | 15-60 years |
| Systems and improvements: | |
| Generation | 8-45 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 |

# Note 1 Summary of Significant Accounting Policies (Continued)

## Capital Assets and Depreciation (Continued)

### *San Antonio Water System (SAWS)*

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $1. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. It is the policy of SAWS to capitalize certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. 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 estimated useful lives of capital assets are as follows:

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

## General Bonded Debt Service

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

## Compensated Absences

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

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

## 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, extended sick leave, and employee wellness are included.

# Note 1 Summary of Significant Accounting Policies (Continued)

## Insurance (Continued)

The City is insured for property and casualty liability. During fiscal year 2007, Great American Insurance Company insured the City's property, while the State National Insurance Company provided excess liability coverage. 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 also provides employee health, 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, 2007, the City has excess workers' compensation coverage through the State National Insurance Company. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

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

## Fund Equity

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

## Revenue Recognition

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

CPS Energy revenues are recorded when earned. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS Energy reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned, under the accrual basis.

## Note 1 Summary of Significant Accounting Policies (Continued)

### 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 2007, general government expenditures were reduced by $7,791, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,896 and $2,895, respectively.

### Nuclear Decommissioning

CPS Energy, together with the other owners of STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS Energy and the other owners will 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. In 1999, the owners conducted a review of decommissioning costs. The results estimated CPS Energy's share of decommissioning costs at approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs was approximately $397,400 in 2004 dollars.

Although there was an increase in decommissioning base costs from the 1998 study to the 2004 study, there was an offsetting decrease in applicable cost escalation assumptions. Therefore, CPS Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $5,000 in fiscal year 2007.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% share of STP in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2006 (the Decommissioning Trust's year end), CPS Energy had accumulated approximately $256,200 of funds in that 28.0% external trust. Based on the annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $87,300 at December 31, 2006.

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 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.

In fiscal year 2006, AEP's remaining operational interest in STP was simultaneously acquired by Texas Genco. Additionally, the remaining portion of AEP's Decommissioning Trust was assumed by Texas Genco. These transactions occurred before Texas Genco was acquired by NRG.

Subject to Public Utility Commission of Texas (PUCT) approval as requested in the future, credits or deficiencies in the funding of this 12.0% Decommissioning Trust will be received from or distributed to AEP's customers. Excluding securities lending cash collateral, as of December 31, 2006, the 12.0% Decommissioning Trust had accumulated approximately $82,700 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that 12.0% Decommissioning Trust are approximately $170,300 in 2004. Based on the annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $37,400 at December 31, 2006.

# Note 1 Summary of Significant Accounting Policies (Continued)

## 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 deferred and amortized over the life of the 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 other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

## Elimination of Internal Activity

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

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

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. 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.

# Note 1 Summary of Significant Accounting Policies (Continued)

## Special Items

### *San Antonio Water System (SAWS)*

During the first quarter of 2006, SAWS completed an independent evaluation of its regional Carrizo water supply project which is designed to bring groundwater from Gonzalez and Wilson Counties to San Antonio via 60 miles of pipe. The results of the study showed potential immediate capital cost savings of approximately $50,000 through utilization of a pipeline route that takes better advantage of existing system capacity. However, as a result of this study and subsequent rerouting of the pipeline, certain design and acquisition costs associated with a previously planned segment of this pipeline were deemed to be obsolete. The total balance of these charges, $4,999, was written off during 2006.

## 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 $2,192 for budgeted carryforwards, $8,522 for special projects, $48,118 for reserve for revenue loss, and $3,830 for Public, Educational and Government Access Funding (PEG) revenues.
- Special Revenue Funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund as well as a reservation for security of a loan within the San Antonio Housing Trust Fund.

# Note 2 Property Taxes

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

In the governmental funds, property tax revenues are recognized when they become available, which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivables, net of allowances for uncollectible amounts, are offset by unearned revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year ended September 30, 2007, was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,090,769 per year based on the net taxable valuation of $56,767,702 before the limit is reached.

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# Note 3 Cash and Cash Equivalents and Investments

## Summary of Cash and Cash Equivalents and Investments

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

**Totals from Statement of Net Assets**

| | City [1] | Fire and Police Pension Fund [2] | Fire and Police Retiree Health Care Fund [2] | CPS Energy [3] | SAWS [4] |
|---|---|---|---|---|---|
| Unrestricted: | | | | | |
| Cash and Cash Equivalents | $ 14,056 | $ 68,799 | $ 9,167 | $ 41,344 | $ 14,042 |
| Security Lending Collateral | | 207,659 | 25,933 | 626,370 | |
| Investments | 326,733 | 2,125,254 | 191,587 | 270,009 | 189,285 |
| Total Unrestricted | 340,789 | 2,401,712 | 226,687 | 937,723 | 203,327 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 179,039 | | | 220,815 | 10,486 |
| Investments | 617,418 | | | 1,312,496 | 221,730 |
| Total Restricted | 796,457 | | | 1,533,311 | 232,216 |
| Total Cash and Cash Equivalents and Investments | $ 1,137,246 | $ 2,401,712 | $ 226,687 | $ 2,471,034 | $ 435,543 |

[1] Private Purpose Trust and Agency Funds and Westside Development Corporation were held by the City in a fiduciary capacity and are excluded from the primary Statement of Net Assets. These assets are presented as Restricted Cash and Cash Equivalents of $7,924 and Investments of $1,952.

[2] The following funds are separately issued fiduciary component units and are excluded from the primary Statement of Net Assets.

[3] For the fiscal year ended January 31, 2007.

[4] For the fiscal year ended December 31, 2006.

**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 | $ 15,410 | $ - | $ 110 | $ 1,936 | $ 18,741 |
| Investments with Original Maturities of Less than Ninety Days | 177,409 | | 9,032 | 259,379 | 5,787 |
| Cash with Pension/Retiree Health Care Fiscal Agents | | 68,799 | | | |
| Cash with Other Financial Agents | 79 | | 25 | 742 | |
| Petty Cash Funds | 197 | | | 102 | |
| Total Cash and Cash Equivalents | $ 193,095 | $ 68,799 | $ 9,167 | $ 262,159 | $ 24,528 |

# 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 | $ 1,065,294 | $ 112,548 | $ 18,728 | $ 1,464,381 | $ 416,802 |
| Repurchase Agreements | 56,266 | | | | |
| Corporate Bonds | | 295,661 | | 62,424 | |
| Foreign Bonds | | | | 10,452 | |
| Preferred Stock | | 1,108 | | | |
| Common Stock | | 1,132,268 | 48,595 | 289,153 | |
| Real Estate | | 183,676 | 25,369 | 8,518 | |
| Mutual Funds - Invest in Common Stock | | | | | |
| Hedge Funds | | 255,426 | 61,300 | | |
| International Equities | | | 23,598 | 6,956 | |
| Swaps Liabilities | | (346) | | | |
| Alternative Investment | | 144,913 | 23,029 | | |
| Total Investments | 1,121,560 | 2,125,254 | 200,619 | 1,841,884 | 416,802 |
| Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents | (177,409) | | (9,032) | (259,379) | (5,787) |
| Total | $ 944,151 | $ 2,125,254 | $ 191,587 | $ 1,582,505 | $ 411,015 |

## 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 the General Fund.

Collateral is required for demand deposits and certificates of deposit at 110.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the state and its municipalities, school districts, and district corporations. Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services.

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

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### Primary Government (City) (Continued)

The City's investment portfolio is managed in accordance with its own Investment Policy and the Texas Public Funds Investment Act, as amended. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2007.

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 $64 for the year ended September 30, 2007. 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 | $ 666,073 | $ 666,181 | 59.4% | AAA/A-1+ | 0.35 years |
| U.S. Treasuries | 271,509 | 271,465 | 24.2% | N/A | 0.24 years |
| Money Market Mutual Fund | 127,648 | 127,648 | 11.4% | AAA | 1 day |
| Repurchase Agreement | 56,266 | 56,266 | 5.0% | N/A | 1 day |
| Total City Investments | $ 1,121,496 | $ 1,121,560 | 100.0% | | |

[1] The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, and Convention Center Hotel Finance Corporation, which total $74,824.

[2] The allocation is based on fair value.

[3] Standard & Poors.

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

**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.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### Primary Government (City) (Continued)

**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 as fewer funds should 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 funds will not fall 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 entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

**Credit Risk -** The City's Investment Policy is to purchase securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury Securities and federal agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated "A" or better by at least two nationally recognized rating agencies. As of September 30, 2007, 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 Farm Credit Bank were rated Aaa by Moody's Investors Services and AAA by Standard & Poor's. The investments in the money market funds were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's, and all repurchase agreements were over 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of "A" or better.

**Concentration of Credit Risk -** Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to credit risk through diversification. As of September 30, 2007, the U.S. government agency securities allocation was as follows: Federal National Mortgage Association 24.6%, Federal Home Loan Mortgage Corporation 20.7%, Federal Home Loan Bank 11.6%, and Federal Farm Credit Bank 2.5%.

### 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. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the trade date. Investments that do not have an established market are reported at estimated fair value. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investment are $2,401,712. A summary of the Pension Funds cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Custodial Credit Risk (Deposits) -** Cash and short-term investments include demand deposit accounts, equity in pooled cash of the City, and short-term U.S. government and other investments. As of September 30, 2007, cash in demand deposit accounts and the pooled cash of the City were fully collateralized.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### Fire and Police Pension Fund (Continued)

**Custodial Credit Risk (Investments)** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2007, the Pension Fund had investment in foreign currency in the amount of $45 that was uninsured and uncollateralized.

**Credit Risk** - Using Standard and Poor's rating system for fixed income securities as of September 30, 2007, 45.0% of the Pension Fund's bonds were rated AAA, 4.0% were rated AA, 9.0% were rated A, 17.0% were rated BBB, 8.0% were rated BB, 8.0% were rated B, 2.0% were rated CCC, and 7.0% were not rated.

**Interest Rate Risk** - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2007 amount to $408,419 and have a weighted-average maturity (WAM) of 10.89 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 | $ 63,960 | 11.23 |
| Government Agencies | 16,656 | 16.64 |
| Government Bonds | 89,864 | 6.05 |
| Short Term Bills and Notes | 497 | 0.17 |
| Government Mortgage Backed Securities | 95,243 | 7.17 |
| Non-Government Backed C.M.O.s | 16,262 | 28.35 |
| Commercial Mortgage-Backed | 821 | 25.91 |
| Asset Backed Securities | 24,721 | 27.86 |
| Ashmore | 28,374 | 16.40 |
| Ashmore LFC | 16,281 | 6.79 |
| Wellington Emerging Market Debt | 55,740 | 9.20 |
| Total Interest Rate Sensitive Securities | $ 408,419 | 10.89 |

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# 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, 2007 amounted to $421,163 in equities, $146,716 in bonds and $2,336 in cash. Detailed as follows:

| Country | Equities | Bonds | Cash | Total |
|---|---|---|---|---|
| Argentine Peso | $ - | $ 2,000 | $ - | $ 2,000 |
| Australian Dollar | 13,074 | 15,749 | 572 | 29,395 |
| Bolivian Boliviano | | 26 | | 26 |
| Brazilian Real | 15,957 | 13,947 | | 29,904 |
| Canadian Dollar | 22,577 | 5,512 | 2,024 | 30,113 |
| Swiss Franc | 14,669 | | 4,777 | 19,446 |
| Chinese Renminbi | 2,432 | 11 | | 2,443 |
| Chilean Peso | | 641 | | 641 |
| Colombian Peso | | 1,795 | | 1,795 |
| Czech Republic Krona | 1,094 | 1,112 | | 2,206 |
| Danish Krone | 1,829 | | 13 | 1,842 |
| Dominican Peso | | 31 | | 31 |
| Egyptian Pound | | 848 | | 848 |
| European Union | 103,205 | 641 | (2,469) | 101,377 |
| British Pound | 67,023 | 8,627 | (5,459) | 70,191 |
| Ghanaian Cedi | | 24 | | 24 |
| Hong Kong Dollar | 15,068 | 549 | 85 | 15,702 |
| Hungarian Forint | 1,783 | 3,517 | | 5,300 |
| Indonesian Rupiah | 1,233 | 6,159 | 30 | 7,422 |
| Israeli New Shekel | 4,489 | 1,025 | | 5,514 |
| Indian Rupee | 436 | 494 | | 930 |
| Jamaican Dollar | | 18 | | 18 |
| Japanese Yen | 64,064 | | 730 | 64,794 |
| South Korean Won | 28,660 | 497 | | 29,157 |
| Kuwati Dinar | | 224 | | 224 |
| Mexican Peso | 6,786 | 7,467 | | 14,253 |
| Malaysian Ringgit | 1,743 | 8,492 | | 10,235 |
| Norwegian Krone | 3,691 | 5,231 | 52 | 8,974 |
| New Zealand Dollar | 192 | 5,022 | | 5,214 |
| Nigerian Naira | | 41 | | 41 |
| Pakistani Rupe | 466 | 20 | | 486 |
| Panamanian Balboa | | 101 | | 101 |
| Peruvian Nuevo Sol | | 600 | | 600 |
| Philippine Peso | | 2,265 | | 2,265 |
| Polish Zloty | 5,297 | 12,190 | | 17,487 |
| Romanian Leu | 2,008 | 250 | | 2,258 |
| Russian Ruble | 5,015 | 6,668 | | 11,683 |
| Swedish Krona | 6,411 | 10,932 | 49 | 17,392 |
| Singapore Dollar | 1,221 | 9,707 | 29 | 10,957 |
| Slovak Koruna | | 1,121 | | 1,121 |
| Thai Baht | 7,743 | 352 | | 8,095 |
| Turkey New Lira | 5,493 | 2,813 | 1,903 | 10,209 |
| Taiwan Dollar | 14,833 | | | 14,833 |
| Ukrainian Hyvnia | | 840 | | 840 |
| UAE Dirham | | 519 | | 519 |
| Uruguay Peso | | 1,061 | | 1,061 |
| Venezuelan Bolivar | | 1,337 | | 1,337 |
| South African Rand | 2,671 | 6,240 | | 8,911 |
| | $ 421,163 | $ 146,716 | $ 2,336 | $ 570,215 |

## 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 are 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 when due, and the value of the collateral is insufficient to replace 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 32 days at September 30, 2007.

As of September 30, 2007, the Pension Fund had lending arrangements outstanding with a total market value of $210,084, which were fully collateralized with cash and securities. Of this amount, cash collateral of $207,659 is recorded in the accompanying Statement of Plan Fiduciary Net Assets. Net income for the year ended September 30, 2007 under the securities lending arrangement was $542.

**Derivatives and Structured Investments** - The Pension Fund has only limited involvement with derivative and other structured financial instruments (as defined in GASB Technical Bulletin No. 94-1) and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity, and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund at September 30, 2007 was approximately $16,262 in commercial mortgage obligations, which is included with investments in the Statement of Net Assets.

The Pension Fund invested using an investment strategy called "portable alpha" in the year ended September 30, 2007. 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 $27,000. The counterparty pays the fixed rate every 6 months on February 28$^{th}$ and August 28$^{th}$. The Pension Fund pays interest every quarter on February 28$^{th}$, May 28$^{th}$, August 28$^{th}$ and November 28$^{th}$. 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 liability of $346 related to the swap is included with the investments on the Statement of Net Assets for the fiscal year ended September 30, 2007. The second part of the strategy involves the use of Treasury futures to replicate the return from the Lehman Brothers Government Index. The contracts used are 3 month contracts and are usually rolled over to new contracts within a half month of their maturity dates. The underlying securities used are new issues. As of September 30, 2007, the Pension Fund held Treasury futures contracts in the amount of $68,933. The margin accounts for the futures contracts are settled daily, so there is no market value for the futures as of September 30, 2007. Income is recognized in the Statement of Changes in Fiduciary Net Assets in net appreciation in fair value of investments.

# Note 3 Cash and Cash Equivalents and Investments (Continued)

## Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and 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 in hedge funds, real estate investment trusts, and alternative investments are held in the form of nonmarketable limited partnership investments. These investments are subject to the terms of the respective partnerships' governing documents, which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net assets values set by the partnerships. These net assets 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.

The Health Care Fund's assets are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio (Investment Policy). The Health Care Fund utilizes an investment consultant to make recommendations as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, bonds, 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 and alternative investments, including real estate, absolute return hedge funds, and timber. The cash portion of the Health Care Fund will be invested in a short-term investment fund administered by the custodian bank, a money market mutual fund, or in individual permissible securities. The fair value of the Health Care Fund's cash and investments at September 30, 2007 is $226,687. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Custodial Credit Risk (Deposits) -** The Health Care Fund's deposits held with the custodial bank are insured up to $100 by federal deposit insurance. Deposit balances over $100 are not insured and are uncollateralized. There are no state regulations, however, which require the fund to maintain collateral for demand deposits not covered by federal deposit insurance. The bank balance of the Health Care Fund, which is exposed to custodial credit risk as of September 30, 2007, is $664. The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2007. The Health Care Fund is aware of these risks and monitors such risks as part of its day-to-day operations and through its daily dealings with the custodian bank.

**Custodial Credit Risk (Investments) -** The Health Care Fund's investment securities, stocks, and bonds, are held at Frost National Bank's third-party custodian, Bank of New York. All securities held for the Health Care Fund at the Bank of New York are in Frost National Bank's name, and Frost National Bank tracks these securities as being held for the benefit of the Health Care Fund. Since the securities are not registered in the name of the Health Care Fund, are held by a counterparty, and are not insured, they are considered to be exposed to custodial credit risk. These investments are reported as follows, by investment type, as of September 30, 2007:

| | |
|---|---|
| Common Stock | $ 48,595 |
| International Equity | 23,598 |
| Money Market Mutual Fund | 9,032 |

# Note 3 Cash and Cash Equivalents and Investments (Continued)

## Fire and Police Retiree Health Care Fund (Continued)

**Credit Risk** - According to the Investment Policy of the Health Care Fund the average credit quality rating for the fixed-income portfolio will be at least A. Ninety percent of the securities must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at the time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines. Credit quality ratings for investments with credit risk were AAA for the money market mutual fund.

**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** - The Health Care Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Health Care Fund is aware of this risk and has chosen to rely on the expert advice of professional money managers to manage its exposure to interest rate changes. The money market mutual fund had a fair value of $9,032 at year-end and is payable on demand.

**Securities Lending** - Securities lending assets are reported at fair value. The Investment Policy of the Health Care Fund and state statutes allow for securities lending transactions. The Health Care Fund entered into an agreement with its custodial bank in May 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic, nongovernment, or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. If the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote. Cash collateral is invested in money market funds at September 30, 2007.

**Subscribed Capital Commitments** - As of September 30, 2007, the Fund had non-binding commitments to invest capital in 10 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 $91,500. As of September 30, 2007, $29,524 of this total had been called.

## CPS Energy

CPS Energy's cash deposits at January 31, 2007 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations held in book entry form by Frost National Bank in CPS Energy's name. A summary of CPS Energy's cash, cash equivalents, and investment can be found at the beginning of Note 3.

CPS Energy's cash, cash equivalents, and investments can be separated by those that are directly managed by CPS Energy, those managed through the Decommissioning Trusts, and those managed through the Employee Benefit Plans. For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts and the Employee Benefit Plans are reported on a calendar-year basis.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

Investments managed directly by CPS Energy 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 PFIA was amended 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 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 mentioned above as directly permissible for CPS Energy, as well as equities and corporate bonds. Specifically, starting in September 2005, in accordance with the applicable amended investment policies, equity investments held can comprise 60.0% of total investments.

Investments in the Employee Benefit Plans are also held by an independent trustee. With the exception of real estates, these investments are limited to the same types mentioned above as authorized by the plans' Administrative Committees, the Trust Agreements and state law. Equity investments can comprise 60.0% of total investments in the health plan and can comprise 65.0% of total investments in the disability and life plans.

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) risk. Additionally, equity investments are exposed to political, legal, event and general economic risk.

CPS Energy identifies and manages all of these risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continually monitoring prudent controls over risks. All investment policies follow the "prudent person" concept.

Effective September 1, 2005, 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 November 2005, the Oversight Committees of the Employee Benefit Plans formally adopted Statements of Investment Objectives, Policy, Guidelines, and Administrative and Review Procedures. The investment objectives of the plans are to preserve plan assets through investment diversification and the trading of high quality securities and to provide sufficient liquidity to pay plan benefits. These investment policies also follow the "prudent person" concept.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate, concentration of credit, credit and foreign currency risks, as applicable. The disclosure requirements of this GASB statement do not apply to equity securities or real estate since neither is directly or immediately exposed to these risks. CPS Energy and its component units do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's and the component units' names.

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

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

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

| Investment Type | Carrying Value | Market Value | Allocation | Weighted-Average Maturity (Years) |
|---|---|---|---|---|
| U.S. Agencies: | | | | |
| Federal Home Loan Mortgage Corp. | $ 593,426 | $ 593,300 | 32.6% | 0.4 |
| Federal National Mortgage Assn. | 421,804 | 421,785 | 23.1% | 0.3 |
| Federal Home Loan Bank | 131,066 | 131,037 | 7.2% | 0.7 |
| Total Fixed-Income Investments | 1,146,296 | 1,146,122 | 62.9% | 0.4 |
| Cash Collateral - Securities Lending | 626,370 | 626,370 | 34.7% | |
| AIM Money Market | 42,500 | 42,500 | 2.4% | |
| Total Portfolio | $ 1,815,166 | $ 1,814,992 | 100.0% | |

**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, 2007, CPS Energy held no direct investments with a credit rating below "AAA".

| Credit Rating | Carrying Value | Market Value | Allocation |
|---|---|---|---|
| AAA | $ 1,815,166 | $ 1,814,992 | 100.0% |
| Total Fixed-Income Investments | $ 1,815,166 | $ 1,814,992 | 100.0% |

# Note 3 Cash and Cash Equivalents and Investments (Continued)

## CPS Energy (Continued)

**Decommissioning Trust Investments** - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and recorded at market value. The Decommissioning Trusts report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31, 2006.

**Interest Rate Risk** - Generally, the long-term nature of the liabilities, and the limited need for daily operating liquidity, allows 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. One of the techniques used to mitigate this risk is having a duration limitation. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Lehman Brothers Aggregate Index, which is 4.5 for 2006.

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

**Concentration of Credit Risk** - In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2006, total nongovernment-sponsored (corporate and foreign) issuers amounted to 30.9% of the 28.0% Decommissioning Trust and 16.0% of the 12.0% Decommissioning Trust.

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

| | 28.0% Interest | | | 12.0% Interest | | |
|---|---|---|---|---|---|---|
| Investment Type | Market Value | Allocation | Weighted-Average Duration (Years) | Market Value | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | $ 24,232 | 12.0% | 3.3 | $ 7,024 | 10.5% | 5.4 |
| U.S. Agencies: | | | | | | |
| Federal National Mortgage Assn. | 32,727 | 16.2% | 3.8 | 6,136 | 9.2% | 4.0 |
| Federal Home Loan Mortgage Corp. | 14,221 | 7.0% | 3.4 | 6,132 | 9.2% | 4.3 |
| Small Business Administration | 4,817 | 2.4% | 3.1 | | | |
| Government National Mortgage Assn. | | | | 2,714 | 4.0% | 4.0 |
| Municipal Bonds - Texas | 305 | 0.1% | 2.7 | 281 | 0.4% | 7.7 |
| Municipal Bonds - Other States | 1,776 | 0.9% | 8.2 | 4,264 | 6.4% | 4.7 |
| Corporate Bonds | 37,776 | 18.6% | 6.0 | 5,144 | 7.7% | 4.8 |
| Foreign Bonds | 1,576 | 0.8% | 11.3 | | | |
| Total Fixed-income Investments | $ 117,430 | 58.0% | 4.5 | $ 31,695 | 47.4% | 4.6 |
| Cash Collateral - Securities Lending | 75,178 | 37.1% | | 34,845 | 52.0% | |
| AIM Money Market | 9,832 | 4.9% | | 428 | 0.6% | |
| Total Portfolio | $ 202,440 | 100.0% | | $ 66,968 | 100.0% | |

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

**Credit Risk** - In accordance with the investment policies, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of "BBB-" or better from at least two nationally recognized credit rating agencies.

| | 28.0% Interest | | 12.0% Interest | |
|---|---|---|---|---|
| Credit Rating | Market Value | Allocation | Market Value | Allocation |
| U.S. Treasuries | $ 24,232 | 12.0% | $ 7,024 | 10.5% |
| AAA | 150,862 | 74.5% | 55,832 | 83.4% |
| AA | 140 | 0.1% | 1,282 | 1.9% |
| A | 12,376 | 6.1% | 2,233 | 3.3% |
| BBB | 14,830 | 7.3% | 597 | 0.9% |
| Total Fixed-income Investments | $ 202,440 | 100.0% | $ 66,968 | 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 currency risk exposure to the portfolio. The foreign bonds outstanding -- both rated and unrated -- amounted to $1,600 as of December 31, 2006.

**CPS Energy Employee Benefit Plans** - The Employee Benefit Plans consist of three separate plans; City Public Service of San Antonio Group Health Plan (Health Plan), City Public Service of San Antonio Disability Income Plan (Disability Plan) and City Public Service of San Antonio Group Life Insurance Plan (Life Plan). These plans report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31, 2006.

**The Health Plan** - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk.

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to fair value losses resulting from rising interest rates by limiting the effective duration of each manager's portfolio to +/- 1.5 years of the effective duration of the specified fixed-income index used as a benchmark for the investment manager's portfolio. In addition, the duration of the aggregate fixed-income portfolio of the trust should not deviate from the duration of the specified fixed-income index used as a benchmark for the aggregate portfolio by more than +/- 1.5 years.

Effective duration is defined as the present value 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. It 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.

In accordance with historical guidelines and the investment policy, the Administrative Committee has established maximum holdings of other than federal government issuers so that in the event of failure of any one issuer it would not affect the entire investment portfolio. Further, exposure to credit risk is managed through diversification and by limiting the amount that may be invested in any one corporate bond issuer to 5.0% of the market value of an investment manager's fixed-income portfolio. In addition, the maximum investment in any one corporate bond or note should not exceed 5.0% of the market value of the aggregate fixed-income portfolio. There is no such concentration restriction on the investment in government-guaranteed or government agency debt issues, other than government agency debt may not exceed 50.0% by any one issuer. There were no corporate bonds exceeding these limits at December 31, 2006.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

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

| CPS Energy - Health Plan | | | |
|---|---|---|---|
| Investment Type | Market Value | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | $ 3,094 | 5.2% | 7.7 |
| U.S. Agencies: | | | |
| Federal National Mortgage Assn. | 6,376 | 10.7% | 3.8 |
| Federal Home Loan Mortgage Corp. | 8,168 | 13.7% | 3.4 |
| Federal Home Loan Bank | 962 | 1.6% | 3.9 |
| Government National Mortgage Assn. | 25 | | 3.1 |
| Corporate Bonds | 14,925 | 25.0% | 5.1 |
| Foreign Bonds | 6,481 | 10.9% | 4.4 |
| Total Fixed-income Investments | 40,031 | 67.1% | 4.6 |
| AIM Money Market | 19,654 | 32.9% | |
| Total Portfolio | $ 59,685 | 100.0% | |
| Specified Fixed-income Index: | | | |
| Lehman Brothers U.S. Aggregate Index | | | 4.5 |
| Citigroup High Yield Bond Index | | | 4.5 |
| Citigroup World Government Bond Index | | | 6.0 |

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their total portfolio in bonds rated below BBB. The investment policy also authorizes the Administrative Committee to retain investment managers to manage "high yield" debt securities. The maximum allocation to high yield securities is 7.5% of total investments, which equated to 29.0% of total fixed-income investments at December 31, 2006.

| CPS Energy - Health Plan | | |
|---|---|---|
| Credit Rating | Market Value | Allocation |
| U.S. Treasuries | $ 3,094 | 5.2% |
| AAA | 38,317 | 64.2% |
| AA | 1,610 | 2.7% |
| A | 2,318 | 3.9% |
| BBB | 1,239 | 2.0% |
| Less than BBB | 6,626 | 11.1% |
| Navarro Investments, L.L.C. - See Next Table | 6,481 | 10.9% |
| Total Fixed-income Investments | $ 59,685 | 100.0% |

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

As noted above, even though at the end of calendar year 2006, the Health Plan held approximately 10.9% of its fixed-income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The following table reflects the weighting of the securities by market value (U.S. dollars) and the corresponding ratings of the underlying securities at the end of 2006. The weighted-average rating for those securities was calculated to be AAA.

| CPS Energy - Health Plan | | |
|---|---|---|
| **Credit Rating - Navarro Investments, L.L.C.** | **Market Value** | **Allocation** |
| AAA | $ 5,692 | 87.8% |
| AA | 439 | 6.8% |
| Unrated | 350 | 5.4% |
| Total - Navarro Investments, L.L.C. | $ 6,481 | 100.0% |

The historical guidelines and the investment policy place a 7.5% of total investment portfolio (fixed-income and equities) limit on the amount that may be invested in foreign-currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the fund.

| CPS Energy - Health Plan | | | |
|---|---|---|---|
| **Investment Type** | **Currency** | **Percentage of Total Portfolio** | **Market Value** |
| Foreign Bond Fund | | | |
| Navarro Investments, L.L.C. | $ * | 4.2% | $ 6,481 |

* The currencies of the underlying investments include the British Pound, European Euro and Japanese Yen. The weighted-average rating of these securities is calculated to be AAA.

**The Disability Plan** - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk and concentration of credit risk. This plan does not hold foreign investments.

The provisions for interest rate risk as noted previously for the Health Plan were consistent with those herein applicable for the Disability Plan.

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## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

The provisions for concentration of credit risk as noted previously for the Health Plan were consistent with those herein applicable for the Disability Plan. The following table lists the fixed-income investment holdings by type:

| CPS Energy - Disability Plan | | | |
|---|---|---|---|
| Investment Type | Market Value | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | $ 244 | 15.4% | 6.5 |
| U.S. Agencies: | | | |
| Federal National Mortgage Assn. | 391 | 24.7% | 4.7 |
| Federal Home Loan Mortgage Corp. | 349 | 22.1% | 3.6 |
| Federal Home Loan Bank | 50 | 3.2% | 5.5 |
| Government National Mortgage Assn. | 31 | 1.9% | 4.5 |
| Corporate Bonds | 285 | 18.0% | 4.7 |
| Total Fixed-income Investments | 1,350 | 85.3% | 4.7 |
| AIM Money Market | 233 | 14.7% | |
| Total Portfolio | $ 1,583 | 100.0% | |
| Specified Fixed-Income Index: | | | |
| Lehman Brothers U.S. Aggregate Index. | | | 4.5 |

In accordance with its historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their portfolio in bonds rated below BBB.

| CPS Energy - Disability Plan | | |
|---|---|---|
| Credit Rating | Market Value | Allocation |
| U.S. Treasuries | $ 244 | 15.4% |
| AAA | 1,139 | 71.9% |
| AA | 25 | 1.6% |
| A | 108 | 6.8% |
| BBB | 67 | 4.3% |
| Total Fixed-income Investments | $ 1,583 | 100.0% |

**The Life Plan** - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk.

The provisions for interest rate risk as noted previously for the Health Plan were consistent with those herein applicable for the Life Plan.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

The provisions for concentration of credit risk as noted previously for the Health Plan were consistent with those herein applicable for the Life Plan. The following table lists the fixed-income investment holdings by type:

| CPS Energy - Life Plan | | | |
|---|---|---|---|
| Investment Type | Market Value | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | $ 1,551 | 8.7% | 7.6 |
| U.S. Agencies: | | | |
| Federal National Mortgage Assn. | 3,920 | 22.0% | 4.1 |
| Federal Home Loan Mortgage Corp. | 3,720 | 20.9% | 3.3 |
| Government National Mortgage Assn. | 92 | 0.5% | 1.3 |
| Federal Home Loan Bank | 74 | 0.4% | 0.7 |
| Corporate Bonds | 4,294 | 24.1% | 5.3 |
| Foreign Bonds | 2,395 | 13.5% | 4.4 |
| Total Fixed-income Investments | 16,046 | 90.1% | 4.6 |
| AIM Money Market | 1,739 | 9.9% | |
| Total Portfolio | $ 17,785 | 100.0% | |
| Specified Fixed-income Index: | | | |
| Lehman Brothers U.S. Aggregate Index | | | 4.5 |
| Citigroup World Government Bond Index | | | 6.0 |

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their portfolio in bonds rated below BBB.

| CPS Energy - Life Plan | | |
|---|---|---|
| Credit Rating | Market Value | Allocation |
| U.S. Treasuries | $ 1,551 | 8.7% |
| AAA | 11,161 | 62.8% |
| AA | 816 | 4.6% |
| A | 1,357 | 7.6% |
| BBB | 505 | 2.8% |
| Navarro Investments, L.L.C. - See Next Table | 2,395 | 13.5% |
| Total Fixed-income Investments | $ 17,785 | 100.0% |

As noted above, even though at the end of calendar year 2006, the Life Plan held approximately 13.5% of its fixed-income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The following table reflects the weighting of the securities by market value (U.S. dollars) and the corresponding ratings of the underlying securities at the end of 2006. The weighted-average rating for those securities was calculated to be AAA.

## Note 3 Cash and Cash Equivalents and Investments (Continued)

### CPS Energy (Continued)

| CPS Energy - Life Plan | | |
|---|---|---|
| Credit Rating - Navarro Investments, L.L.C. | Market Value | Allocation |
| AAA | $ 2,104 | 87.8% |
| AA | 162 | 6.8% |
| Unrated | 129 | 5.4% |
| Total - Navarro Investments, L.L.C. | $ 2,395 | 100.0% |

The historical guidelines and the investment policy place a 7.5% of total investment portfolio (fixed-income and equities) limit on the amount that may be invested in foreign-currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the fund.

| CPS Energy - Life Plan | | | |
|---|---|---|---|
| Investment Type | Currency | Percentage of Total Portfolio | Market Value |
| Foreign Bond Fund | | | |
| Navarro Investments, L.L.C. | $ * | 5.1% | $ 2,395 |

* The currencies of the underlying investments include the British Pound, European Euro and Japanese Yen. The weighted-average rating of these securities is calculated to be AAA.

### San Antonio Water System (SAWS)

The investment policy of SAWS, a major discretely presented component unit, is governed by state statute, local ordinance, and their own respective written investment policy. SAWS is permitted by City Ordinance No. 75686 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 state and national banks domiciled 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, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at reported cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Custodial Credit Risk (Deposit) -** All funds are deposited at JP Morgan Chase Bank N.A., SAWS' general depository bank. The general depository agreement does not require that SAWS 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, 2006, 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, 2006, the bank balance of demand and savings account was $21,249, and the reported amount was $18,741.

**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' general depository bank, JP Morgan Chase Bank N.A., registered as accounts of SAWS. Funds held in escrow are money market funds managed by U.S. Bank and are invested in U.S. Treasury obligations. Investments are classified as current and non-current based on the maturity dates as of the end of the fiscal year.

# Note 3 Cash and Cash Equivalents and Investments (Continued)

## San Antonio Water System (SAWS) (Continued)

As of December 31, 2006, SAWS had the following investments and maturities:

| | Investments Maturities (in Days) | | | | |
|---|---|---|---|---|---|
| Investment Type | 90 Days or Less | 91 to 180 | 181 to 365 | Fair Value | Reported |
| U.S. Agency Discount Notes | $ 132,771 | $ 85,274 | $ 25,148 | $ 243,193 | $ 243,328 |
| U.S. Agency Coupon Notes | 72,943 | 60,687 | 31,769 | 165,399 | 165,431 |
| Money Market Funds: | | | | | |
| U.S. Bank | 8,043 | | | 8,043 | 8,043 |
| | $ 213,757 | $ 145,961 | $ 56,917 | $ 416,635 | $ 416,802 |
| Percentage of Portfolio | 51.3% | 35.0% | 13.7% | 100.0% | |

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

**Credit Risk** - In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of "A" or better. Additionally, any investments in commercial paper require a rating of at least "A-1" or "P-1". As of December 31, 2006 SAWS held no direct investments with a credit rating below "AAA".

**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 it can invest 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, 2006, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 19.9% in Federal Home Loan Bank, 37.0% in Federal National Mortgage Association, and 35.8% in Federal Home Loan Mortgage Corporation.

# Note 4 Capital Assets

## Primary Government (City)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. There were no impairments of the City's business-type activities during fiscal year 2007; however impairments of $903 were identified and reduced in capital assets for governmental activities.

# Note 4 Capital Assets (Continued)

## Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2007, is as follows:

| Capital Assets - Governmental Activities | | | | | | | |
|---|---|---|---|---|---|---|---|
| Governmental Activities | Beginning Balance | Prior Period Adjustment | Beginning Balance (Restated) | Increases | Decreases | Transfers | Ending Balance |
| Non-Depreciable Assets: | | | | | | | |
| Land | $ 1,289,520 | $ - | $ 1,289,520 | $ 52,047 | $ - | $ - | $ 1,341,567 |
| Construction in Progress | 252,149 | (141,982) | 110,167 | 168,558 | | (64,538) | 214,187 |
| Total Non-Depreciable Assets | 1,541,669 | (141,982) | 1,399,687 | 220,605 | | (64,538) | 1,555,754 |
| Depreciable Assets: | | | | | | | |
| Buildings | 634,082 | 20,358 | 654,440 | 2,644 | (276) | 11,541 | 668,349 |
| Improvements | 146,063 | 76,817 | 222,880 | 99 | | 15,461 | 238,440 |
| Infrastructure | 2,151,113 | 58,340 | 2,209,453 | 35 | (750) | 37,536 | 2,246,274 |
| Machinery and Equipment | 307,414 | (341) | 307,073 | 33,748 | (12,311) | | 328,510 |
| Total Depreciable Assets | 3,238,672 | 155,174 | 3,393,846 | 36,526 | (13,337) | 64,538 | 3,481,573 |
| Accumulated Depreciation: | | | | | | | |
| Buildings | (205,684) | 3,928 | (201,756) | (17,810) | 57 | | (219,509) |
| Improvements | (47,136) | (7,112) | (54,248) | (8,179) | | | (62,427) |
| Infrastructure | (1,316,822) | (12,092) | (1,328,914) | (55,845) | 71 | | (1,384,688) |
| Machinery and Equipment | (140,521) | (11,725) | (152,246) | (27,386) | 6,408 | | (173,224) |
| Total Accumulated Depreciation | (1,710,163) | (27,001) | (1,737,164) | (109,220) | 6,536 | | (1,839,848) |
| Total Depreciable Assets, net | 1,528,509 | 128,173 | 1,656,682 | (72,694) | (6,801) | 64,538 | 1,641,725 |
| Total Capital Assets, net | $ 3,070,178 | $ (13,809) | $ 3,056,369 | $ 147,911 | $ (6,801) | $ - | $ 3,197,479 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| General Government | $ 22,345 |
| Public Safety | 8,197 |
| Public Works | 52,073 |
| Health Services | 356 |
| Sanitation | 55 |
| Welfare | 372 |
| Culture and Recreation | 7,913 |
| Convention and Tourism | 4,048 |
| Economic Development and Opportunity | 16 |
| Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage | 13,845 |
| Total Depreciation Expense for Governmental Activities | $ 109,220 |

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2007, Internal Service Funds capital assets increased by $17,526, and decreased by $9,937, resulting in an ending balance of $138,362. Depreciation expense of $13,845 resulted in an ending accumulated depreciation balance of $87,851, to arrive at net book value of $50,511.

# 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 2007, the City capitalized construction period interest for the Airport System in the amount of $364. Capital asset activity for business-type activities for the year ended September 30, 2007, is as follows:

**Capital Assets - Business-Type Activities**

| | Beginning Balance | Prior Period Adjustment | Beginning Balance (Restated) | Increases | Decreases | Ending Balance |
|---|---|---|---|---|---|---|
| Non-Depreciable Assets: | | | | | | |
| Land: | | | | | | |
| Airport System | $ 2,970 | $ - | $ 2,970 | $ 1,573 | $ - | $ 4,543 |
| Nonmajor Enterprise Funds | 9,018 | | 9,018 | | | 9,018 |
| Total Land | 11,988 | | 11,988 | 1,573 | | 13,561 |
| Construction in Progress: | | | | | | |
| Airport System | 103,986 | (61,620) | 42,366 | 55,633 | | 97,999 |
| Nonmajor Enterprise Funds | 1,334 | (1,334) | | | | |
| Total Construction in Progress | 105,320 | (62,954) | 42,366 | 55,633 | | 97,999 |
| Total Non-Depreciable Assets | 117,308 | (62,954) | 54,354 | 57,206 | | 111,560 |
| Depreciable Assets: | | | | | | |
| Buildings: | | | | | | |
| Airport System | 144,248 | | 144,248 | | | 144,248 |
| Nonmajor Enterprise Funds | 30,182 | | 30,182 | 180 | | 30,362 |
| Total Buildings | 174,430 | | 174,430 | 180 | | 174,610 |
| Improvements: | | | | | | |
| Airport System | 170,860 | 39,512 | 210,372 | | | 210,372 |
| Nonmajor Enterprise Funds | 5,717 | 1,295 | 7,012 | 1 | | 7,013 |
| Total Improvements | 176,577 | 40,807 | 217,384 | 1 | | 217,385 |
| Machinery and Equipment: | | | | | | |
| Airport System | 11,359 | | 11,359 | 147 | (317) | 11,189 |
| Nonmajor Enterprise Funds | 4,447 | 16 | 4,463 | 2,543 | (15) | 6,991 |
| Total Machinery and Equipment | 15,806 | 16 | 15,822 | 2,690 | (332) | 18,180 |
| Total Depreciable Assets | 366,813 | 40,823 | 407,636 | 2,871 | (332) | 410,175 |
| Accumulated Depreciation: | | | | | | |
| Buildings: | | | | | | |
| Airport System | (61,488) | | (61,488) | (3,428) | | (64,916) |
| Nonmajor Enterprise Funds | (10,112) | 218 | (9,894) | (791) | | (10,685) |
| Total Buildings | (71,600) | 218 | (71,382) | (4,219) | | (75,601) |
| Improvements: | | | | | | |
| Airport System | (78,779) | (2,142) | (80,921) | (5,150) | | (86,071) |
| Nonmajor Enterprise Funds | (1,214) | (235) | (1,449) | (251) | | (1,700) |
| Total Improvements | (79,993) | (2,377) | (82,370) | (5,401) | | (87,771) |
| Machinery and Equipment: | | | | | | |
| Airport System | (9,083) | (12) | (9,095) | (558) | 261 | (9,392) |
| Nonmajor Enterprise Funds | (3,575) | (3) | (3,578) | (544) | 12 | (4,110) |
| Total Machinery and Equipment | (12,658) | (15) | (12,673) | (1,102) | 273 | (13,502) |
| Total Accumulated Depreciation | (164,251) | (2,174) | (166,425) | (10,722) | 273 | (176,874) |
| Total Depreciable Assets, net | 202,562 | 38,649 | 241,211 | (7,851) | (59) | 233,301 |
| Total Capital Assets, net | $ 319,870 | $ (24,305) | $ 295,565 | $ 49,355 | $ (59) | $ 344,861 |

## 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 [1] | Gas |
| Arthur von Rosenberg | 1 | Gas | Leon Creek | 6 [1] | Gas |
| O.W. Sommers | 2 | Gas | | | |

[1] Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2 and Leon Creek Unit 4, which are fully depreciated and are currently not available for use.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in 2010. CPS Energy selected Calaveras Power Partners—a team led by Zachry Construction Corporation of San Antonio—to construct the 750-megawatt coal-fired generating unit at Calaveras Lake. Spruce 2 will be the largest of the coal units at Calaveras Lake, and it will be equipped with current emissions-control technology.

Plant-in-service also includes CPS Energy's 40.0% interest in South Texas Project (STP). 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 electric and gas distribution systems.

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

An internal company-wide review of capital assets, in accordance with GASB Statement No. 42, indicated that CPS Energy had no impaired capital assets for fiscal year 2007.

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# Note 4 Capital Assets (Continued)

## CPS Energy (Continued)

Below is a detail of the activity of CPS Energy's Net Capital Assets as presented on the balance sheet, including capital asset activity for the fiscal year ended January 31, 2007:

| Capital Assets - CPS Energy | | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Increases | Transfers | Decreases | Ending Balance |
| Non-Depreciable Assets: | | | | | |
| Land | $ 58,651 | $ - | $ 1,429 | $ - | $ 60,080 |
| Nonutility Land | 12,599 | | | | 12,599 |
| Construction in Progress | 296,946 | 546,009 | (423,160) | | 419,795 |
| Total Non-Depreciable Assets | 368,196 | 546,009 | (421,731) | | 492,474 |
| Depreciable Capital Assets: | | | | | |
| Electric Plant | 6,259,022 | 36,801 | 335,897 | (32,269) | 6,599,451 |
| Gas Plant | 574,138 | 3,827 | 22,201 | 1,287 | 601,453 |
| General Plant | 540,008 | 13,625 | 63,633 | (9,482) | 607,784 |
| Utility Property Leased | 18,785 | | | | 18,785 |
| Nuclear Fuel | 485,055 | 36,174 | | | 521,229 |
| Total Depreciable Capital Assets | 7,877,008 | 90,427 | 421,731 | (40,464) | 8,348,702 |
| Accumulated Depreciation: | | | | | |
| Electric Plant | (2,530,472) | (214,410) | | 36,407 | (2,708,475) |
| Gas Plant | (191,045) | (12,966) | | (1,065) | (205,076) |
| General Plant | (155,130) | (34,495) | | 8,885 | (180,740) |
| Utility Property Leased | (336) | (504) | | | (840) |
| Nuclear Fuel | (425,585) | (25,668) | | | (451,253) |
| Total Accumulated Depreciation | (3,302,568) | (288,043) | | 44,227 | (3,546,384) |
| Depreciable Assets, net | $ 4,574,440 | $ (197,616) | $ 421,731 | $ 3,763 | $ 4,802,318 |
| Total Capital Assets, net | $ 4,942,636 | $ 348,393 | $ - | $ 3,763 | $ 5,294,792 |

Cash flow information - Cash paid for additions, net removal costs, and nuclear fuel was $623,739, and noncash AFUDC was $16,460, for a total of $640,199. Included in Decreases was $7,500 in removal costs, offset by $3,737 in salvage sales. Depreciation and depletion totaled $288,043.

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

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## Note 4 Capital Assets (Continued)

### CPS Energy (Continued)

STP is a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (a non-profit Texas Corporation) and is financed and controlled by the owners—CPS Energy, NRG Energy, Inc., and the City of Austin. Also, see Note 10, CPS Energy South Texas Project (STP). To achieve the 40.0% interest in STP, CPS Energy exercised its right of first refusal to acquire an additional 12.0% (300 megawatts) share from AEP, the prior owner. The purchase was completed May 19, 2005 and increased CPS Energy's proportionate share of STP from 28.0% to 40.0%. As of January 31, 2007, CPS Energy's capital investment in STP is as follows:

| STP Capital Investment (40.0% share), Net | |
|---|---|
| | January 31, 2007 |
| STP capital assets (40.0% share), net | |
| Construction in Progress | $ 30,966 |
| Land | 5,701 |
| Electric and general plant | 1,376,023 |
| Nuclear fuel | 69,976 |
| Total STP capital asset (40.0% share), net | $ 1,482,666 |
| Total CPS Energy assets, net | $ 5,294,792 |
| STP capital investment as a percentage of total CPS Energy capital assets, net | 28.0% |

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# Note 4 Capital Assets (Continued)

## San Antonio Water System (SAWS)

SAWS capitalized interest incurred on revenue bonds and commercial paper debt totaled $69,146 during the twelve months ended December 31, 2006, of which $10,234 was capitalized as part of the cost of SAWS' utility plant additions. 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 | $ 72,822 | $ - | $ 407 | $ 160 | $ 73,069 |
| Acquisition of Water Rights | 36,047 | | 3,672 | | 39,719 |
| Construction in Progress | 483,201 | 203,726 | (308,009) | 7,530 | 371,388 |
| Total Non-Depreciable Assets | 592,070 | 203,726 | (303,930) | 7,690 | 484,176 |
| Depreciable Assets: | | | | | |
| Structures and Improvements | 311,977 | | 39,413 | 48 | 351,342 |
| Pumping and Purification | 79,524 | | 31,858 | | 111,382 |
| Distribution and Transmission System | 1,020,945 | 1,189 | 132,001 | 1,575 | 1,152,560 |
| Treatment Facilities | 1,085,163 | | 92,310 | | 1,177,473 |
| Machinery and Equipment | 82,748 | 4,639 | 5,716 | 4,642 | 88,461 |
| Furniture and Fixtures | 4,823 | 40 | 2 | 35 | 4,830 |
| Computer Equipment | 14,438 | 1,063 | 1,117 | 775 | 15,843 |
| Software | 7,755 | 564 | 1,513 | | 9,832 |
| Total Depreciable Assets | 2,607,373 | 7,495 | 303,930 | 7,075 | 2,911,723 |
| Accumulated Depreciation: | | | | | |
| Structures and Improvements | (68,304) | (6,824) | | (14) | (75,114) |
| Pumping and Purification | (16,017) | (2,444) | | | (18,461) |
| Distribution and Transmission System | (298,767) | (25,342) | | (1,502) | (322,607) |
| Treatment Facilities | (408,361) | (28,636) | | | (436,997) |
| Machinery and Equipment | (50,358) | (5,036) | | (3,924) | (51,470) |
| Furniture and Fixtures | (2,721) | (333) | | (33) | (3,021) |
| Computer Equipment | (10,358) | (1,620) | | (752) | (11,226) |
| Software | (6,277) | (1,077) | | | (7,354) |
| Total Accumulated Depreciation | (861,163) | (71,312) | | (6,225) | (926,250) |
| Total Depreciable Assets, net | 1,746,210 | (63,817) | 303,930 | 850 | 1,985,473 |
| Total Capital Assets, net | $ 2,338,280 | $ 139,909 | $ - | $ 8,540 | $ 2,469,649 |

During the first quarter of 2006, SAWS completed an independent evaluation of its regional Carrizo water supply project which is designed to bring groundwater from Gonzalez and Wilson Counties to San Antonio via 60 miles of pipe. The results of the study showed potential immediate capital cost savings of approximately $50,000 through utilization of a pipeline route that take better advantage of existing system capacity. However, as a result of this study and subsequent rerouting of the pipeline, certain design and acquisition costs associated with a previously planned segment of this pipeline were deemed to be obsolete. The total $4,999 balance of these charges was written off during 2006.

# Note 5 Receivables and Payables

## Disaggregation of Receivables

Net receivables at September 30, 2007 are as follows:

| | Accounts | Taxes | Notes and Loans | Accrued Interest | Other | Total Net Receivables |
|---|---|---|---|---|---|---|
| Governmental Activities | $ 70,022 | $ 70,347 | $ 3,676 | $ 9,956 | $ 139 | $ 154,140 |
| Business-Type Activities: | | | | | | |
| Airport System | $ 6,759 | $ - | $ - | $ 2,079 | $ - | $ 8,838 |
| Nonmajor Enterprise Funds | 5,840 | | | 279 | | 6,119 |
| Total Business-Type Activities | $ 12,599 | $ - | $ - | $ 2,358 | $ - | $ 14,957 |

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $47,734 against customer, other governmental agencies and other receivables, and $3,949 against property and occupancy taxes. The receivable balance for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $1,605 against customer and other receivables.

The only receivables not expected to be collected within one year are $2,875 of notes and loans receivables, net allowance for doubtful accounts, related to Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding unearned revenue balance recorded within the respective funds.

## Disaggregation of Payables

Payables at September 30, 2007 are as follows:

| | Accounts | Accrued Payroll | Total Payables |
|---|---|---|---|
| Governmental Activities | $ 136,477 | $ 15,415 | $ 151,892 |
| Business-Type Activities: | | | |
| Airport System | $ 27,965 | $ 636 | $ 28,601 |
| Nonmajor Enterprise Funds | 3,728 | 815 | 4,543 |
| Total Business-Type Activities | $ 31,693 | $ 1,451 | $ 33,144 |

## Interfund Receivable and Payable Balances

As of September 30, 2007, the interfund receivable and payable balances represent short-term loans resulting from (1) post closing adjustments between funds after cash and related interest earning have been calculated and allocated and (2) short-term borrowings at year-end. Of the $45,418 due from other funds in the General Fund, $44,784 is a result of overdraws of pooled cash. All amounts are expected to be paid within one year. See table on next page.

# Note 5 Receivables and Payables (Continued)

## Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2007:

| Summary Table of Interfund Receivables and Payables<br>As of September 30, 2007 | Due from Other Funds | Due To Other Funds |
|---|---|---|
| General Fund: | | |
| Fiduciary Funds | $ 670 | $ - |
| Categorical Grant-In Aid | 30,785 | 1 |
| Nonmajor Governmental Funds | 13,919 | 2,715 |
| Airport System Fund | 38 | |
| Nonmajor Enterprise Funds | 6 | |
| Total General Fund | 45,418 | 2,716 |
| Debt Service Funds: | | |
| Nonmajor Governmental Funds | 295 | |
| Nonmajor Enterprise Funds | 17 | |
| Total Debt Service Funds | 312 | |
| Airport System Fund: | | |
| General Fund | | 38 |
| Airport Operating Fund from the Airport I&C Fund | 204 | |
| Airport PFC I&C Fund from Airport PFC Fund | 846 | |
| Stinson Airport Fund from the Airport I&C Fund | 500 | |
| Airport Debt Service Fund from the Airport I&C Fund | 364 | |
| Airport Construction Fund to Airport Construction Fund | 30 | 30 |
| Airport I&C Fund to the Airport Debt Service Fund | | 364 |
| Airport I&C Fund to the Stinson Airport Fund | | 500 |
| Airport PFC Fund to the Airport PFC I&C Fund | | 846 |
| Airport I&C Fund to the Airport Operating Fund | | 204 |
| Total Airport System Fund | 1,944 | 1,982 |
| Categorical Grant-In Aid: | | |
| General Fund | 1 | 30,785 |
| Categorical Grant-In Aid | 531 | 531 |
| Nonmajor Governmental Funds | 362 | 1,508 |
| Total Categorical Grant-In Aid | 894 | 32,824 |
| Fiduciary Funds: | | |
| General Fund | | 670 |
| Total Fiduciary Funds | | 670 |
| Internal Service Funds: | | |
| Nonmajor Governmental Funds | 50 | |
| Total Internal Service Funds | 50 | |
| Nonmajor Governmental Funds: | | |
| General Fund | 2,715 | 13,919 |
| Categorical Grant-In Aid | 1,508 | 362 |
| Debt Service Fund | | 295 |
| Internal Service Funds | | 50 |
| Nonmajor Governmental Funds | 6,782 | 6,782 |
| Total Nonmajor Governmental Funds | 11,005 | 21,408 |
| Nonmajor Enterprise Funds: | | |
| General Fund | | 6 |
| Debt Service Fund | | 17 |
| Total Nonmajor Enterprise Funds | | 23 |
| Total | $ 59,623 | $ 59,623 |



*Amounts are expressed in thousands*

# 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 2007. In December 2006, the City issued the following; $170,785 in General Improvement and Refunding Bonds, Series 2006 and $73,155 Combination Tax and Revenue Certificates of Obligations, Series 2006.

The General Improvement and Refunding Bonds, Series 2006 were issued to refund certain tax-supported debt for interest cost savings and are pledged from ad valorem taxes. The net proceeds from the sale of the General Improvement and Refunding Bonds, Series 2006, which included an original premium of $9,018, were applied, together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $16,828 in debt service payments. Through this transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,424, in interest cost savings. Remaining proceeds will be used for constructing street, drainage, library, parks and recreation, and public health improvements. The General Improvement and Refunding Bonds are retired serially in the years 2007 through 2026 and bear interest rates ranging from 3.5% to 5.0%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2006 will be utilized to fund capital improvements to include public safety, including constructing, renovating, and improving existing fire stations; street sidewalk, bridge, and drainage improvements; construction improvements for flood control, dams, landscaping and amenities along the San Antonio River; constructing improvements and renovations to municipal and public facilities to include the Plaza de Armas building and Pearsall Landfill; construction improvements to the City's library system, municipal golf courses; constructing utility system and other infrastructure improvements at KellyUSA; constructing and equipping certain downtown public restroom facilities; payment of the costs of a study for the possible relocation of the San Antonio Metropolitan Health District Laboratory to Brooks City-Base and a portion of the relocation costs; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes; and the payment of professional services related to the construction and financing of the aforementioned projects. The Certificates are retired serially in the years 2007 through 2026 and bear interest rates ranging from 3.5% to 4.4%.

On October 18, 2006 the City issued $72,620 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006. The bonds are payable from and are equally secured by a lien on the Pledged Revenues. The net proceeds from the sale of the 2006 revenue bonds, less $385 of the original issue discount, together with a cash contribution from the City, was applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $10,440 in debt service payments. Through this transaction, the City obtained a total economic gain of $11,507. The Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006 are retired serially in the years 2007 through 2026 and bear interest rates ranging from 4.0% to 4.5%.

On June 1, 2007, the City issued $5,500 of Hotel Occupancy Tax (HOT) Notes, Series 2007. The HOT Notes are payable from HOT revenues which are being used as an interim funding mechanism in anticipation of the projected reimbursement from the State under Senate Bill 150 which allows for the City to be reimbursed for these capital improvements via the State's portion of sales and use tax collected in conjunction with the NCAA 2008 Final Four. Proceeds of the note will be used for Alamodome renovations and enhancements necessary to host the NCAA 2008 Final Four. The HOT Notes, Series 2007 are retired in the year 2010 and bear an interest of 4.0%.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

Additionally, on June 6, 2007, the City issued and received proceeds for $60,000 of Tax Notes, Series 2007. The Tax Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Tax Notes, Series 2007 are retired in the year 2010 and bear an interest rate of 3.9%.

Proceeds of the Tax Notes, Series 2007 will be used for the acquisition and construction of land for the Haven for Hope Homeless Campus; acquiring land for the park facilities, Voelker Park and Denman Land; acquisition of a San Antonio Police Department property room; fund public safety, drainage, sidewalk, bridge, and street improvements; constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River; and constructing and improving municipal facilities. $43,500 of these proceeds are set aside to fund projects approved in the $550,000 May 2007 Municipal Bond Program.

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

### *Prior Years' Defeased Debt*

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, 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 Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow accounts, are fully sufficient to make timely payments 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 liabilities of the City; therefore, they are not included in the City's financial statements. On September 30, 2007, $213,330 of previously defeased bonds were outstanding.

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# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

The following table is a summary of changes for the year ended September 30, 2007 for governmental activity debt:

| Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Time of Original Issuance | | | | | | |
| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2006 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2007 |
| General Obligation Bonds: | | | | | | | |
| 1996A Refunding | $ 82,730 | 2016 | 4.8000-6.000 | $ 8,120 | $ - | $ 3,915 | $ 4,205 |
| 1996B Refunding | 6,030 | 2008 | 6.700 | 1,475 | | 1,475 | |
| 1998 Refunding | 30,855 | 2018 | 4.500-5.000 | 16,435 | | 2,310 | 14,125 |
| 1998 Forward Refunding | 53,950 | 2008 | 5.500-6.000 | 15,005 | | 7,375 | 7,630 |
| 1998A Refunding | 49,110 | 2019 | 4.000-5.250 | 27,030 | | 5,650 | 21,380 |
| 1999 | 12,000 | 2011 | 5.500 | 2,690 | | 480 | 2,210 |
| 2000 | 27,565 | 2020 | 4.500-5.000 | 17,490 | | 10,870 | 6,620 |
| 2000A | 15,615 | 2021 | 5.250-5.375 | 7,090 | | 2,790 | 4,300 |
| 2001 | 84,945 | 2022 | 3.000-5.250 | 47,510 | | 44,190 | 3,320 |
| 2002 Forward Refunding | 251,280 | 2013 | 5.000-5.250 | 157,360 | | 21,860 | 135,500 |
| 2002 | 55,850 | 2023 | 3.000-5.500 | 46,790 | | 14,530 | 32,260 |
| 2003 | 40,905 | 2014 | 2.750-5.000 | 28,925 | | 3,085 | 25,840 |
| 2003A | 56,515 | 2016 | 3.500-5.000 | 53,540 | | 2,850 | 50,690 |
| 2004 | 33,570 | 2024 | 2375-4.750 | 33,570 | | | 33,570 |
| 2004 Refunding | 13,245 | 2016 | 1.875-4.650 | 10,785 | | 1,100 | 9,685 |
| 2005 | 116,170 | 2025 | 3.500-5.250 | 116,170 | | | 116,170 |
| 2006 Refunding | 33,090 | 2016 | 3.700-5.500 | 33,090 | | | 33,090 |
| 2006 Refunding | 170,785 | 2026 | 3.500-5.000 | | 170,785 | 4,100 | 166,685 |
| Total General Obligation Bonds | $ 1,134,210 | | | $ 623,075 | $ 170,785 | $ 126,580 | $ 667,280 |
| Tax-Exempt Certificates of Obligation: | | | | | | | |
| Series 1998 | $ 4,315 | 2018 | 4.700-5.000 | $ 1,375 | $ - | $ 460 | $ 915 |
| Series 1998A | 36,535 | 2019 | 4.000-5.250 | 14,115 | | 4,000 | 10,115 |
| Series 1999 | 4,230 | 2011 | 5.750 | 950 | | 170 | 780 |
| Series 2000 | 8,490 | 2020 | 4.500-5.000 | 5,385 | | 3,350 | 2,035 |
| Series 2000A | 8,810 | 2021 | 5.250-5.375 | 4,000 | | 1,575 | 2,425 |
| Series 2000C | 6,415 | 2020 | 5.000-5.500 | 5,805 | | 275 | 5,530 |
| Series 2001 | 65,195 | 2014 | 4.000-5.250 | 48,650 | | 10,660 | 37,990 |
| Series 2002 | 69,930 | 2023 | 3.000-5.500 | 64,125 | | 14,875 | 49,250 |
| Series 2004 | 29,525 | 2024 | 2.000-5.000 | 28,515 | | 600 | 27,915 |
| Series 2005 | 10,535 | 2025 | 4.000-5.250 | 10,535 | | | 10,535 |
| Series 2006 | 73,155 | 2026 | 3.500-4.370 | | 73,155 | 2,460 | 70,695 |
| Total Tax-Exempt Certificates of Obligation | $ 317,135 | | | $ 183,455 | $ 73,155 | $ 38,425 | $ 218,185 |
| Taxable Certificates of Obligation: | | | | | | | |
| Series 1996 | $ 6,160 | 2009 | 6.550-6.050 | $ 1,000 | $ - | $ 1,000 | $ - |
| Series 1996B | 7,375 | 2008 | 6.800 | 715 | | 715 | |
| Series 2000B | 1,755 | 2021 | 7.450-7.550 | 1,555 | | 1,265 | 290 |
| Series 2005A | 2,900 | 2007 | 4.610 | 2,900 | | 2,900 | |
| Total Taxable Certificates of Obligation | $ 18,190 | | | $ 6,170 | $ - | $ 5,880 | $ 290 |
| Tax Notes: | | | | | | | |
| Series 2006 | $ 37,600 | | | $ 37,600 | $ - | $ 37,600 | $ - |
| Series 2007 | 60,000 | 2010 | 3.898 | | 60,000 | | 60,000 |
| Total Tax Notes | $ 97,600 | | | $ 37,600 | $ 60,000 | $ 37,600 | $ 60,000 |
| Revenue Bonds: | | | | | | | |
| Series 1996 Hotel Occupancy Tax [1] | $ 182,012 | 2026 | 5.100-6.020 | $ 86,897 | $ - | $ 68,785 | $ 18,112 |
| Series 2004A Hotel Occupancy Tax | 10,390 | 2029 | 5.000 | 10,390 | | | 10,390 |
| Series 2004B Hotel Occupancy Tax | 111,425 | 2034 | 2.000-5.000 | 109,250 | | 2,300 | 106,950 |
| Series 2006 Hotel Occupancy Tax Ref | 72,620 | 2026 | 4.000-4.500 | | 72,620 | 800 | 71,820 |
| Series 2007 Hotel Occupancy Tax Note | 5,500 | 2010 | 4.040 | | 5,500 | | 5,500 |
| Series 2003 Municipal Drainage | 44,150 | 2028 | 3.500-5.000 | 40,950 | | 1,140 | 39,810 |
| Series 2005 Municipal Drainage | 61,060 | 2030 | 3.500-5.250 | 59,750 | | 1,355 | 58,395 |
| Series 2001 Municipal Facility Corp | 14,465 | 2020 | 3.800-5.200 | 11,700 | | 610 | 11,090 |
| Convention Series 2005A | 129,930 | 2039 | 5.000 | 129,930 | | | 129,930 |
| Convention Series 2005B | 78,215 | 2028 | 4.500-5.310 | 78,215 | | | 78,215 |
| Starbright Industrial Development Corp. | 24,685 | 2033 | 2.180-5.110 | 24,685 | | 525 | 24,160 |
| Total Revenue Bonds | $ 734,452 | | | $ 551,767 | $ 78,120 | $ 75,515 | $ 554,372 |
| Total | $ 2,301,587 | | | $ 1,402,067 | $ 382,060 | $ 284,000 | $ 1,500,127 |

[1] A portion of the Hotel/Motel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through fiscal year 2007 has resulted in an increase of $16,496 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

### Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding as of September 30, 2007 is as follows:

| Principal and Interest Requirements | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Obligation Bonds | | Certificates of Obligation | | Tax Notes | | Revenue Bonds | | |
| Year Ending September 30, | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total Annual Requirements |
| 2008 | $ 57,575 | $ 32,662 | $ 18,190 | $ 9,546 | $ - | $ 2,787 | $ 6,910 | $ 26,116 | $ 153,786 |
| 2009 | 58,500 | 29,565 | 18,710 | 8,711 | | 2,339 | 9,760 | 23,643 | 151,228 |
| 2010 | 61,955 | 26,971 | 18,060 | 7,903 | 60,000 | 2,339 | 18,395 | 23,313 | 218,936 |
| 2011 | 65,360 | 23,889 | 18,800 | 7,060 | | | 10,112 | 22,626 | 147,847 |
| 2012 | 46,215 | 20,633 | 19,990 | 6,121 | | | 10,644 | 22,305 | 125,908 |
| 2013-2017 | 196,575 | 67,917 | 52,145 | 20,065 | | | 58,071 | 105,773 | 500,546 |
| 2018-2022 | 142,460 | 25,197 | 43,615 | 11,340 | | | 103,010 | 90,148 | 415,770 |
| 2023-2027 | 38,640 | 2,586 | 28,965 | 1,893 | | | 123,620 | 64,301 | 260,005 |
| 2028-2032 | | | | | | | 105,555 | 37,801 | 143,356 |
| 2033-2037 | | | | | | | 79,145 | 17,248 | 96,393 |
| 2038-2039 | | | | | | | 29,150 | 2,205 | 31,355 |
| Total | $ 667,280 | $ 229,420 | $ 218,475 | $ 72,639 | $ 60,000 | $ 7,465 | $ 554,372 | $ 435,479 | $ 2,245,130 |

| Total Principal and Interest Payable within One Year | | | | | |
|---|---|---|---|---|---|
| Principal | $ 57,575 | $ 18,190 | $ - | $ 6,910 | $ 82,675 |
| Interest | 32,662 | 9,546 | 2,787 | 26,116 | 71,111 |
| Total | $ 90,237 | $ 27,736 | $ 2,787 | $ 33,026 | $ 153,786 |

A portion of the Hotel/Motel Occupancy Tax Revenue Bonds 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. Interest accreted through fiscal year 2007 has resulted in an increase of $16,496 in revenue bonds payable. The increase is reflected on the Statement of Net Assets but is not in this table.

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# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

| Authorized but Unissued General Obligation Debt | | | | |
|---|---|---|---|---|
| Authorization Date | Purpose | Amount Authorized | Bonds Previously Issued | Bonds Authorized but Unissued |
| 01-26-80 [1] | Drainage and Flood Control | $ 21,637 | $ 17,413 | $ 4,224 |
| 01-26-80 [1] | Fire Protection | 4,257 | 2,125 | 2,132 |
| 01-26-80 [1] | Libraries | 4,978 | 3,926 | 1,052 |
| 01-26-80 [1] | Street, Bridge, and Related Improvements | 43,287 | 34,035 | 9,252 |
| 11-04-03 [2] | Street and Pedestrian | 29,398 | 29,398 | |
| 11-04-03 [2] | Drainage | 18,913 | 18,913 | |
| 11-04-03 [2] | Parks and Recreation | 27,224 | 27,224 | |
| 11-04-03 [2] | Library System | 3,965 | 3,965 | |
| 11-04-03 [2] | Public Health and Safety | 35,500 | 35,500 | |
| 05-12-07 [3] | Street, Bridge, and Sidewalks | 306,998 | 5,321 | 301,677 |
| 05-12-07 [3] | Drainage | 152,052 | 2,636 | 149,416 |
| 05-12-07 [3] | Parks and Recreation | 79,125 | 35,338 | 43,787 |
| 05-12-07 [3] | Libraries | 11,025 | 191 | 10,834 |
| 05-12-07 [3] | Public Health and Safety | 800 | 14 | 786 |
| Total | | $ 739,159 | $ 215,999 | $ 523,160 |

[1] In addition to the debt authorized on November 4, 2003, the City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds. The City does not currently intend to issue the bonds authorized in 1980.

[2] $115,000 in debt was authorized on November 4, 2003, the City issued the remaining balance of $48,325 on December 5, 2006.

[3] $550,000 in debt was authorized on May 12, 2007, the City issued $43,500 through the usage of 2007 Tax Notes in debt.

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

### *Debt Limitation*

The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2007 was $65,033,626, which provides a debt ceiling of $6,503,363. The total outstanding debt that is secured by an ad valorem tax pledge is $945,755.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

### *Debt Limitation (Continued)*

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 one 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.

### 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, 2007 were approximately $3,676.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high-capacity trailer, and a hazardous materials vehicle. 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 | $ 34,457 |
| Less: Accumulated Depreciation | (12,108) |
| Total | $ 22,349 |

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# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Governmental Activity Long-Term Debt (Continued)*

As of September 30, 2007, 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: | | | |
| 2008 | $ 4,620 | $ 4,016 | $ 8,636 |
| 2009 | 3,837 | 3,396 | 7,233 |
| 2010 | 3,678 | 2,527 | 6,205 |
| 2011 | 2,795 | 2,254 | 5,049 |
| 2012 | 610 | 1,895 | 2,505 |
| 2013-2017 | | 2,803 | 2,803 |
| Future Minimum Lease Payments | 15,540 | $ 16,891 | $ 32,431 |
| Less: Interest | (1,075) | | |
| Present Value of Future Minimum Lease Payments | 14,465 | | |
| Less: Current Portion | (4,156) | | |
| Capital Lease, Net of Current Portion | $ 10,309 | | |

### *Business-Type Activity Long-Term Debt*

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

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

On December 13, 2006, the City issued $17,850 of Airport System Revenue Refunding Bonds, Series 2006. The bonds are special obligations of the City payable from gross revenues. The net proceeds from the 2006 revenue refunding bonds, which include an original premium of $870, were applied together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $543 in debt service payments. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $907. The Airport System Revenue Refunding Bonds, Series 2006 are retired serially in the years 2007 through 2014 and bear an interest rate of 5.0%.

**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 revenue bonds, and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Business-Type Activity Long-Term Debt (Continued)*

**Capitalized Interest Costs** - Interest costs incurred on revenue bonds totaled $14,386. For fiscal year 2007, an amount of $364 was capitalized for the Airport System, as part of the cost of additions to the Airport System.

The following table is a summary of changes in revenue bonds for the fiscal year ended September 30, 2007.

| Business-Type Long-Term Debt | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Time of Original Issuance | | | | | | |
| Issues | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2006 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2007 |
| Airport System: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 1996 | $ 38,000 | 2014 | 5.700-5.750 | $ 17,725 | $ - | $ 17,725 | $ - |
| Series 2001 | 17,795 | 2016 | 5.375 | 17,795 | | | 17,795 |
| Series 2002 | 92,470 | 2027 | 5.000-5.750 | 90,220 | | 1,215 | 89,005 |
| Series 2002 PFC | 37,575 | 2027 | 4.000-5.750 | 34,270 | | 920 | 33,350 |
| Series 2003 Refunding | 50,230 | 2013 | 5.500-6.000 | 37,965 | | 4,545 | 33,420 |
| Series 2003B | 3,255 | 2009 | 2.300-3.000 | 3,255 | | 1,020 | 2,235 |
| Series 2005 PFC | 38,085 | 2030 | 3.375-5250 | 37,260 | | 855 | 36,405 |
| Series 2006 Refunding | 17,850 | 2014 | 5.000 | | 17,850 | 1,465 | 16,385 |
| Total Airport System | $ 295,260 | | | $ 238,490 | $ 17,850 | $ 27,745 | $ 228,595 |
| Parking System: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 2000 | $ 24,845 | 2024 | 5.000-5.750 | $ 23,395 | $ - | $ 620 | $ 22,775 |
| Total Parking System | $ 24,845 | | | $ 23,395 | $ - | $ 620 | $ 22,775 |
| Total | $ 320,105 | | | $ 261,885 | $ 17,850 | $ 28,365 | $ 251,370 |

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds outstanding at September 30, 2007, are as follows:

| Business-Type Long-Term Debt | | | | | | |
|---|---|---|---|---|---|---|
| | Airport System | | | Parking System | | |
| Year Ending Sept. 30: | Principal | Interest | Total | Principal | Interest | Total |
| 2008 | $ 10,155 | $ 12,208 | $ 22,363 | $ 660 | $ 1,264 | $ 1,924 |
| 2009 | 11,585 | 11,704 | 23,289 | 850 | 1,230 | 2,080 |
| 2010 | 12,195 | 11,119 | 23,314 | 350 | 1,187 | 1,537 |
| 2011 | 13,365 | 10,448 | 23,813 | 575 | 1,169 | 1,744 |
| 2012 | 14,090 | 9,700 | 23,790 | 1,110 | 1,139 | 2,249 |
| 2013-2017 | 62,715 | 36,819 | 99,534 | 6,515 | 4,742 | 11,257 |
| 2018-2022 | 42,210 | 22,893 | 65,103 | 8,560 | 2,715 | 11,275 |
| 2023-2027 | 54,910 | 10,529 | 65,439 | 4,155 | 362 | 4,517 |
| 2028-2030 | 7,370 | 692 | 8,062 | | | |
| Total | $ 228,595 | $ 126,112 | $ 354,707 | $ 22,775 | $ 13,808 | $ 36,583 |

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

### *Business-Type Activity Long-Term Debt (Continued)*

**Leases**

The City has entered into various lease purchase agreements for the acquisitions of a high-capacity trailer, garbage trucks and garbage containers. 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 leases recognition these items were expensed during the current year as their individual costs were below the City capitalization threshold.

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

| | |
|---|---|
| Machinery and Equipment | $ 3,208 |
| Less: Accumulated Depreciation | (893) |
| Total | $ 2,315 |

As of September 30, 2007, 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, | | | |
| 2008 | $ 954 | $ 160 | $ 1,114 |
| 2009 | 937 | 148 | 1,085 |
| 2010 | 366 | 12 | 378 |
| 2011 | 192 | | 192 |
| 2012 | 192 | | 192 |
| 2013-2014 | 240 | | 240 |
| Future Minimum Lease Payments | 2,881 | $ 320 | $ 3,201 |
| Less: Interest | (203) | | |
| Present Value of Future Minimum Lease Payments | 2,678 | | |
| Less: Current Portion | (869) | | |
| Capital Leases, Net of Current Portion | $ 1,809 | | |

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# 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 | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| General Obligation Bonds | $ 623,075 | $ 170,785 | $ 126,580 | $ 667,280 | $ 57,575 |
| Tax-Exempt Certificates of Obligation | 183,455 | 73,155 | 38,425 | 218,185 | 18,125 |
| Taxable Certificates of Obligation | 6,170 | | 5,880 | 290 | 65 |
| Tax Notes | 37,600 | 60,000 | 37,600 | 60,000 | |
| Revenue Bonds | 551,767 | 78,120 | 75,515 | 554,372 | 6,910 |
| | 1,402,067 | 382,060 | 284,000 | 1,500,127 | 82,675 |
| Unamortized Premium/Discount [3] | 48,189 | 41,403 | 7,493 | 82,099 | 4,007 |
| Deferred Amount on Refunding | (8,598) | (10,151) | (1,466) | (17,283) | (2,004) |
| Total Bonds Payable | 1,441,658 | 413,312 | 290,027 | 1,564,943 | 84,678 |
| Total Commercial Paper [1] | | 4,000 | | 4,000 | |
| Other Payables: | | | | | |
| Accrued Arbitrage Rebate Payable [2] | 401 | 427 | | 828 | |
| Capital Leases | 10,267 | 10,965 | 6,767 | 14,465 | 4,156 |
| Compensated Absences | 141,406 | 69,953 | 54,563 | 156,796 | 51,144 |
| Notes Payable | 58,005 | 151 | 1,985 | 56,171 | 2,085 |
| Other Payables | 8,003 | | 3,384 | 4,619 | 2,315 |
| Total Other Payables | 218,082 | 81,496 | 66,699 | 232,879 | 59,700 |
| Total Governmental Activities Long-Term Liabilities | $ 1,659,740 | $ 498,808 | $ 356,726 | $ 1,801,822 | $ 144,378 |
| Business-Type Activities: | | | | | |
| Bonds Payable: | | | | | |
| Revenue Bonds | $ 261,885 | $ 17,850 | $ 28,365 | $ 251,370 | $ 10,815 |
| Unamortized Premium/Discount [3] | 3,813 | 7,126 | 1,096 | 9,843 | 1,332 |
| Deferred Amount on Refunding | (3,390) | (451) | (904) | (2,937) | (97) |
| Total Bonds Payable | 262,308 | 24,525 | 28,557 | 258,276 | 12,050 |
| Other Payables: | | | | | |
| Airport System | 168 | 74 | | 242 | 242 |
| Nonmajor Enterprise Funds | 1,011 | | 1,004 | 7 | 7 |
| | 1,179 | 74 | 1,004 | 249 | 249 |
| Airport System Arbitrage Rebate Payable [2] | 30 | 106 | | 136 | 136 |
| Capital Leases Nonmajor Enterprise Funds | 115 | 3,338 | 775 | 2,678 | 869 |
| Accrued Landfill Postclosure Costs [2] | | 1,552 | 77 | 1,475 | 425 |
| Compensated Absences | 3,158 | 3,052 | 2,343 | 3,867 | 645 |
| Total Other Payables | 4,482 | 8,122 | 4,199 | 8,405 | 2,324 |
| Total Business-Type Activities Long-Term Liabilities | $ 266,790 | $ 32,647 | $ 32,756 | $ 266,681 | $ 14,374 |

NOTE: The accreted interest through fiscal year 2007 has resulted in an increase of $16,496 in Hotel/Motel Tax Revenue Bonds Payable in governmental activities. The accreted interest in the amount of $16,496 is reflected on the Statement of Net Assets, but is not reflected in this table.

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

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

3 Changed policy from straight line to effective interest resulted in $34,264 increase of additions for Governmental and $6,256 increase of additions for Business-Type activities.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

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

**Compensated Absences**

The following is a summary of compensated absences for the year ended September 30, 2007:

| Governmental Activities | | | | | |
|---|---|---|---|---|---|
| Fund Type | Short-Term Available | Short-Term Remaining | Total Short-Term | Long-Term | Total |
| Governmental Funds | $ 8,454 | $ 42,257 | $ 50,711 | $ 103,488 | $ 154,199 |
| Internal Service Funds | | 433 | 433 | 2,164 | 2,597 |
| Total Governmental Activities | $ 8,454 | $ 42,690 | $ 51,144 | $ 105,652 | $ 156,796 |

The General Fund, which accounts for approximately 65.0% of the City's employees, has typically been used in prior years to liquidate the liability for compensated absences. However, the fund which liquidates compensated absences is the same fund that the employees' salaries are charged to throughout the year.

| Business-Type Activities | | | |
|---|---|---|---|
| Fund | Short-Term | Long-Term | Total |
| Airport System | $ 342 | $ 1,708 | $ 2,050 |
| Nonmajor Enterprise Funds | 303 | 1,514 | 1,817 |
| Total Business-Type Activities | $ 645 | $ 3,222 | $ 3,867 |

**Conduit Debt Obligations**

The City facilitates the issuance of bonds to enable the San Antonio Education Facilities Corporation, Health Facilities Development Corporation, Industrial Development Authority, and Empowerment Zone Development Corporation, component units of the City, to provide financial assistance to various entities for the acquisition, construction, and/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, 2007, the aggregate principal amounts outstanding are as follows: seven series of Education Facility Revenue Bonds in the amount of $88,005; one series of Health Facilities Development Bonds in the amount of $7,540; two series of Industrial Revenue Bonds in the amount of $12,250; 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, 2007, 31 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $270,706 and an aggregate principal amount issued of $272,529.

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, 2007, the amount of conduit debt was $30,369.

# Note 6 Long-Term Debt (Continued)

## Primary Government (City) (Continued)

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

**Conduit Debt Obligations (Continued)**

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are 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 bonds when they become due. The aggregate principal amount outstanding for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2007 was $0 and $3,600, respectively.

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, 2007, the aggregate amount of the outstanding loan totaled $15,670.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term pre-paid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the pre-paid 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, 2007, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount issued and payable of $644,260.

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

As of January 31, 2007, 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: (a) for maintenance and operating expenses of CPS Energy, (b) for payments of the New Series Bonds, (c) for the payment of prior lien bonds, including junior lien obligations, (d) payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper), (e) payment of an inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds, and the notes and credit agreement, (f) for an annual amount equal to 6.0% of the gross revenues of CPS Energy to be deposited in the Repair and Replacement account, (g) for cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenue of CPS Energy, and (h) for any remaining net revenues in the General Account to the Repair and Replacement account.

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. 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.

# Note 6 Long-Term Debt (Continued)

## CPS Energy (Continued)

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 that shall be reasonable and nondiscriminatory and that will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;

(b) the interest on and principal of all parity bonds, as defined in the New Series Bonds 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;

(c) 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;

(d) 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

(e) any legal debt or obligation of CPS Energy as and when the same shall become due.

***Revenue Bonds***

On August 31, 2006, CPS Energy issued $384,185 of tax-exempt New Series 2006A Revenue Bonds. These bonds were partially used to reimburse the Repair and Replacement Account for construction expenditures made during the months of February through July 2006 in the amount of $131,200. The $268,800 remaining proceeds and net original issue premium will be used to fund generation, as well as electric and gas distribution construction projects.

On August 11, 2006, $106,400 of New Series 1997 Revenue and Refunding Bonds were legally defeased with cash. Under this defeasance, the debt obligations have been technically voided, as an appropriate level of cash has been set aside in escrow to service the debt. As a result, an accounting loss of $7,200 was recorded. The basis of the loss calculation included $107,800 paid for the actual defeasance; less the par value of debt outstanding; plus unamortized bond issue, reacquisition, and discount costs.

# Note 6 Long-Term Debt (Continued)

## CPS Energy (Continued)

### *Revenue Bonds (Continued)*

| CPS Energy Revenue Bond Summary | | |
|---|---|---|
| Bond Series | Weighted Average Yield on Outstanding Bonds at January 31, 2007 | January 31, 2007 |
| Tax Exempt New Series Bonds, 1994A-2006A; 2008-2025 | 4.8% | $ 2,578,485 |
| Taxable New Series Bonds, 1998 and 2000; 2008-2021 | 6.7% | 125,370 |
| Total | | 2,703,855 |
| Tax Exempt Variable Rate Series Bonds, 2003-2004, 2024-2033 | 4.8% | 407,000 |
| Total Revenue Bonds Outstanding | | 3,110,855 |
| Less: Current Maturities of Bonds | | 141,755 |
| Total Revenue Bonds, Net of Current Maturities | | $ 2,969,100 |

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 |
| 2008 | $ 141,755 | $ 152,493 | $ 294,248 |
| 2009 | 151,225 | 145,274 | 296,499 |
| 2010 | 148,170 | 137,495 | 285,665 |
| 2011 | 161,805 | 129,735 | 291,540 |
| 2012 | 175,900 | 121,216 | 297,116 |
| 2013-2017 | 722,290 | 473,450 | 1,195,740 |
| 2018-2022 | 717,340 | 300,127 | 1,017,467 |
| 2023-2027 | 603,120 | 121,159 | 724,279 |
| 2028-2032 | 239,250 | 39,188 | 278,438 |
| 2033 | 50,000 | 1,770 | 51,770 |
| Totals | $ 3,110,855 | $ 1,621,907 | $ 4,732,762 |

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, 2005, the 2004 Junior Lien bonds were remarketed for a two-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, 2007. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 3.5% 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.

# Note 6 Long-Term Debt (Continued)

## CPS Energy (Continued)

### *Revenue Bonds (Continued)*

| Long-Term Debt Activity | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding February 1, 2006 | Additions During Year | Decreases During Year | Balance Outstanding January 31, 2007 |
| Revenue and Refunding Bonds: | | | | | | | |
| 1994A Tax Exempt | $ 684,700 | 2012 | 5.008 | $ 68,965 | $ - | $ - | $ 68,965 |
| 1995 Tax Exempt | 125,000 | 2007 | 5.500 | 5,800 | | 5,800 | |
| 1997 Tax Exempt | 350,000 | 2020 | 5.738 | 4,085 | | 4,085 | |
| 1997 Tax Exempt | 311,170 | 2014 | 5.509 | 102,355 | | 102,355 | |
| 1998A Tax Exempt | 785,515 | 2021 | 4.918 | 550,040 | | 34,545 | 515,495 |
| 1998B Taxable | 99,615 | 2020 | 6.343 | 87,815 | | 4,175 | 83,640 |
| 2000A Tax Exempt | 170,770 | 2010 | 5.374 | 11,170 | | 3,080 | 8,090 |
| 2000B Taxable | 50,425 | 2021 | 7.403 | 43,425 | | 1,695 | 41,730 |
| 2001 Tax Exempt | 115,280 | 2011 | 3.843 | 106,430 | | 21,400 | 85,030 |
| 2002 Tax Exempt | 436,090 | 2017 | 4.055 | 436,090 | | | 436,090 |
| 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 | 89,150 | | 7,000 | 82,150 |
| 2003 Tax Exempt | 350,490 | 2013 | 3.081 | 312,400 | | 57,080 | 255,320 |
| 2004 Tax Exempt Junion Lien | 160,000 | 2027 | Variable | 157,000 | | | 157,000 |
| 2005 Tax Exempt | 294,625 | 2020 | 4.381 | 294,625 | | | 294,625 |
| 2005 Tax Exempt | 240,675 | 2025 | 4.683 | 240,675 | | | 240,675 |
| 2005A Tax Exempt | 197,335 | 2025 | 4.571 | 197,335 | | | 197,335 |
| 2006A Tax Exempt | 384,185 | 2025 | 4.555 | | 384,185 | | 384,185 |
| | | | | 2,967,885 | 384,185 | 241,215 | 3,110,855 |
| Bonds Outstanding: | | | | | | | |
| Bond Current Maturities | | | | (135,155) | (6,600) | | (141,755) |
| Bond (Discount)/Premium | | | | 102,164 | 18,447 | 16,399 | 104,212 |
| Bond Reacquisition Costs | | | | (121,298) | | (25,537) | (95,761) |
| Revenue Bonds, Net | | | | 2,813,596 | 396,032 | 232,077 | 2,977,551 |
| Tax Exempt Commercial Paper (TECP) | | | Variable | 150,000 | 200,000 | | 350,000 |
| Total Long-Term Debt, Net | | | | $ 2,963,596 | $ 596,032 | $ 232,077 | $ 3,327,551 |

## San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved Ordinance No. 75686 which effectuated the consolidation of all 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.

## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

***Funds Flow*** - City Ordinance No. 75686 requires that gross revenues of SAWS be applied in sequence to (1) current maintenance and operating expenses, including a two-month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of senior lien obligations; (3) reserve fund requirements of senior lien obligations; (4) interest and sinking fund and reserve fund requirements of junior lien obligations; (5) interest and sinking fund and reserve fund requirements of subordinate lien obligations; (6) payment of amounts required on inferior lien obligations; and (7) transfers to the City's General Fund and to the renewal and replacement fund.

***Stormwater*** - As defined in City Ordinance No. 75686 the stormwater program is not considered a part of SAWS and as such, revenues generated by the stormwater program are used to pay expenses of the stormwater program but are not available for debt service of SAWS or for transfer to the City. The City and SAWS have administrative responsibility for the Stormwater Program and have entered into an interlocal agreement, which establishes the entities' respective responsibilities. SAWS responsibility is in various aspects of data collection and analysis related to the water quality of stormwater as well as responsibility for customer billings and collection. Costs incurred by SAWS related to the stormwater program are reflected as expenses and are reimbursed by the City. Such reimbursements are included in water supply operating revenues.

***Reuse Contract*** - SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of gross revenues, and are not included in 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 May 15, 2006, SAWS redeemed the $68,000 outstanding balance of its Series 1996 Senior Lien Bond obligations at a 2.0% premium. These bonds were refunded through the issuance of tax-exempt commercial paper. The redemption of fixed-rate debt with lower coupon variable-rate debt provided cash savings to SAWS of approximately $809 for 2006.

Senior Lien Water System Revenue Bonds, comprising of Series 1997, Series 2001, Series 2002, Series 2002-A, Series 2004, and Series 2005, outstanding in the total amount of $958,255 at December 31, 2006 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 an operating reserve for operating and maintenance expenses.

Junior Lien Water System Revenue Bonds, comprising of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, and Series 2004-A outstanding in the total amount of $208,990 at December 31, 2006 are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien debt.

Subordinate Lien Water System Revenue Bonds comprising of Series 2003-A and 2003-B, outstanding in the amount of $116,265 at December 31, 2006 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 and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien and junior lien debt.

# Note 6 Long-Term Debt (Continued)

## San Antonio Water System (SAWS) (Continued)

### *Revenue Bonds (Continued)*

Revenue bonds currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| Build, Improve, Extend, Enlarge, and Repair the System | 0.60-6.25% | $ 1,283,510 |

The following summarizes transactions of the Revenue Bonds for the year ended December 31, 2006:

| | Beginning Balance Jan. 1, 2006 | Additions | Reductions | Ending Balance Dec. 31, 2006 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $ 1,373,925 | $ - | $ 90,415 | $ 1,283,510 | $ 24,880 |
| Deferred Amounts for Issuance (Discounts)/Premiums/(Losses) | (25,872) | (2,942) | 2,946 | (25,868) | |
| Total Bonds Payable, Net | $ 1,348,053 | $ (2,942) | $ 93,361 | $ 1,257,642 | $ 24,880 |

Annual debt service requirements are shown as follows:

**Annual Debt Service Requirements**
**Revenue and Refunding Bonds**

| Year Ended December 31, | Senior Lien | | Junior Lien | | Subordinate Lien | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | $ 14,755 | $ 48,114 | $ 7,850 | $ 7,044 | $ 2,275 | $ 4,860 |
| 2008 | 18,705 | 47,227 | 8,085 | 6,797 | 2,375 | 4,765 |
| 2009 | 19,585 | 46,229 | 10,285 | 6,520 | 2,485 | 4,665 |
| 2010 | 20,065 | 45,207 | 12,555 | 6,186 | 2,600 | 4,562 |
| 2011 | 20,145 | 44,203 | 12,950 | 5,802 | 2,720 | 4,453 |
| 2012-2016 | 101,530 | 205,643 | 71,950 | 22,161 | 15,555 | 20,454 |
| 2017-2021 | 135,845 | 175,814 | 68,740 | 8,536 | 19,435 | 16,893 |
| 2022-2026 | 218,070 | 130,385 | 16,575 | 741 | 24,300 | 12,442 |
| 2027-2031 | 158,385 | 74,983 | | | 30,355 | 6,880 |
| 2032-2036 | 92,930 | 53,945 | | | 14,165 | 895 |
| 2037-2040 | 158,240 | 16,170 | | | | |
| Total | $ 958,255 | $ 887,920 | $ 208,990 | $ 63,787 | $ 116,265 | $ 80,869 |

***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 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 to SAWS than traditional long-term fixed rate bonds.

## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

***Terms*** - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2006, are included in the following table. SAWS' swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap was structured to match the principal amortization structure and dates of the Series 2003 Bonds. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns) with the index for the variable rate leg of the swap being the Bond Market Association (BMA) Municipal Swap Index.

| Related Bonds | Maturity | Counterparty | CP Rating by Moody's/S&P/Fitch | Variable Rate Received | Fixed Rate Paid | Market Value at December 31, 2006 |
|---|---|---|---|---|---|---|
| Series 2003 | May 1, 2033 | Bear Sterns | Aaa/AAA/AAA | BMA | 4.18% | $ (3,652) |

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

***Fair Value*** - The swap had a negative fair value as of December 31, 2006 of $3,652. 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, 2006, 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, was rated AAA by Fitch's Ratings and Standard & Poor's and Aaa by Moody's Investor Service as of December 31, 2006. The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should Bear Stearns credit rating fall below the applicable thresholds in the agreement.

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

***Termination Risk*** - SAWS may terminate the swap at any time for any reason. Bear Stearns 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 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. 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.

## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

***Swap Payments and Associated Debt*** - As of December 31, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

| | Variable Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| Year | Principal | Interest | Swap, Net | Total |
| 2007 | $ 2,275 | $ 4,546 | $ 314 | $ 7,135 |
| 2008 | 2,375 | 4,457 | 308 | 7,140 |
| 2009 | 2,485 | 4,364 | 301 | 7,150 |
| 2010 | 2,600 | 4,267 | 295 | 7,162 |
| 2011 | 2,720 | 4,165 | 288 | 7,173 |
| 2012-2016 | 15,555 | 19,133 | 1,321 | 36,009 |
| 2017-2021 | 19,435 | 15,801 | 1,091 | 36,327 |
| 2022-2026 | 24,300 | 11,639 | 804 | 36,743 |
| 2027-2031 | 30,355 | 6,436 | 444 | 37,235 |
| 2032-2033 | 14,165 | 837 | 58 | 15,060 |
| Total | $ 116,265 | $ 75,645 | $ 5,224 | $ 197,134 |

***Capitalized Interest Costs*** - Interest costs incurred on revenue bonds and commercial paper debt totaled $69,146 during the year ended December 31, 2006, of which $10,239 was capitalized as part of the cost of SAWS' utility plant additions.

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

***Prior Years Defeasance of Debt*** - In 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, 2006, $107,455 of bonds outstanding are considered defeased.

***Note Payable*** - During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights valued at $3,593 from certain CPS Energy owned properties. In exchange for these water rights, a note was signed for 116 payments of $40 at an interest rate of 7.5%. The liability as of December 31, 2006 is included in the Statement of Net Assets for both the current portion of $420 and long-term amount of $571. The annual principal and interest requirements are as follows:

# Note 6 Long-Term Debt (Continued)

## San Antonio Water System (SAWS) (Continued)

*Notes Payable (Continued)*

| San Antonio Water System Principal and Interest Requirements | | | |
|---|---|---|---|
| Year Ending December 31, | Principal | Interest | Total Annual Requirements |
| 2007 | $ 420 | $ 60 | $ 480 |
| 2008 | 453 | 27 | 480 |
| 2009 | 118 | 2 | 120 |
| Total | $ 991 | $ 89 | $ 1,080 |

# Note 7 Commercial Paper Programs and Other Borrowings

## Primary Government (City)

*Commercial Paper*

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2007, $4,000 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 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 UBS Investment Bank 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, 2007, 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 sales and use tax of 1/8 cent not to exceed $90,000.

| Commercial Paper | | | | |
|---|---|---|---|---|
| Issue | Balance Outstanding October 1, 2006 | Additions | Deletions | Balance Outstanding September 30, 2007 |
| Series 2007 | $ - | $ 4,000 | $ - | $ 4,000 |

## Note 7 Commercial Paper Programs and Other Borrowings (Continued)

### CPS Energy

*Commercial Paper*

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations that are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. The program's scheduled maximum maturities will not 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 revolving credit agreement, CPS Energy may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The revolving credit agreement is currently extended until November 1, 2010, and may be renewed for an additional year.

As of January 31, 2007, 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 $200,000 of TECP on August 24, 2006. These proceeds will be used to fund generation, as well as electric and gas distribution construction projects. The current outstanding TECP balance as of January 31, 2007, is $350,000.

As of January 31, 2007, a summary of TECP is as follows:

| | |
|---|---|
| TECP Outstanding | $ 350,000 |
| TECP New Money Issues | $ 200,000 |
| Weighted Average Interest Rate of Outstanding TECP | 3.6% |
| Average Life of Outstanding TECP (Approximate Number of Days) | 90 |

### San Antonio Water System (SAWS)

*Commercial Paper*

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

On November 17, 2005, the City Council of the City of San Antonio approved the expansion of the 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 Program to maintain at all times credit facilities with banks or other financial institutions that would provide available borrowing capacity sufficient to pay the principal of the Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Program, SAWS entered into agreements with the following participants:

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

# Note 7 Commercial Paper Programs and Other Borrowings (Continued)

## San Antonio Water System (SAWS) (Continued)

### *Commercial Paper (Continued)*

The borrowings under the Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $237,360 are outstanding as of December 31, 2006. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. Consistent with prior years, the Program notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement. Interest rates on the notes outstanding at December 31, 2006 range from 3.5% to 3.7% and maturities range from 19 to 152 days. The outstanding notes had an average rate of 3.6% and averaged 87 days to maturity.

The following summarizes transactions of the Program for the year ended December 31, 2006.

| | Beginning Balance January 1, 2006 | Additions | Reductions | Ending Balance December 31, 2006 |
|---|---|---|---|---|
| Tax Exempt Commercial Paper Notes | $ 98,000 | $ 139,360 | $ - | $ 237,360 |

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# Note 8 Pension and Retirement Plans

## Primary Government (City)

### *General Plan Information*

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

| Contributory Pension and Retirement Plans | | | | | | |
|---|---|---|---|---|---|---|
| Entity | Title | Type of Plan | Covered Payroll | Employee Contribution | Employer Contribution | Total Contribution |
| City | Fire and Police Pension Fund | Single Employer Defined Benefit Plan | $ 221,539 | $ 27,476 | $ 54,952 | $ 82,428 |
| | Texas Municipal Retirement System (TMRS) | Nontraditional Hybrid Defined Benefit Agent Plan | $ 231,262 | $ 13,868 | $ 28,455 | $ 42,323 |
| Component Units: | | | | | | |
| SAWS | [1] Texas Municipal Retirement System (TMRS) | Nontraditional Defined Benefit Agent Plan | $ 65,078 | $ 1,974 | $ 2,197 | $ 4,171 |
| | [2] PMLIC Contract | Single Employer Defined Benefit Plan | $ 60,836 | $ - | $ 4,575 | $ 4,575 |
| CPS Energy | [3] CPS All Employees Plan | Single Employer Defined Benefit Plan | $ 210,074 | $ 10,005 | $ 9,626 | $ 19,631 |

[1] Plan year ended December 31, 2006

[2] Plan year ended December 31, 2006

[3] Fiscal year ended January 31, 2007

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# 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 City provides retirement benefits for all eligible full-time firefighters and police officers through the Pension Fund. Employees who terminate, having 5 to 20 years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for 20 years or more shall, upon application to the board of trustees (the Board) of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest 3 years of pay of the last 5 years of service. The retirement annuity for employees retiring after September 30, 2003 is computed at the rate of 2.3% of this average for each of the first 20 years of service, plus 4.5% of the member's average total salary for each of the next 7 years, plus 3.0% of the member's average total salary for each of the next 3 years of service, plus 0.5% of the member's average total salary for each of the next 4 years of service, with fractional years of service prorated based on full months served as a contributing member. In applying 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, 87.5% of the member's average total salary.

An employee with 20 years and one month of actual service credit may, at the time of retirement, elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of 20 years or 36 months and a reduced annuity payment.

There is also a provision for a thirteenth and fourteenth pension check. 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. 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 time of the disbursement 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 pro-rated check, and no check will be paid to members who retired after the end of the fiscal year). The Pension Fund met the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2007. Subsequent to September 30, 2007, the Board did approve a thirteenth and fourteenth check.

If 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, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

Effective October 1, 2001, in addition to the changes for credited service and the fourteenth check other new provisions included allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27-year service pension.

# Note 8 Pension and Retirement Plans (Continued)

## Primary Government (City) (Continued)

### *Fire and Police Pension Plan (Continued)*

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971 received an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971 but before October 1, 1993 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, 1993 receive an increase equal to 75.0% of the increase in the CPI.

Contribution requirements of plan members and the City are established and may be amended by state statute. In the current year, the City contributed 24.6% of covered payroll, and employees contributed 12.3% of covered payroll. The employer's required contribution of $54,952 and the employee's required contribution of $27,476 were made to the Pension Fund (see summary of contribution information at the beginning of Note 8). New firefighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements.

The Pension Fund's annual required contribution for fiscal year 2007 was determined by Pension Law. The Pension Fund's October 1, 2006 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase 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 amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is 10.7 years with no assumption of a 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.

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%.

# Note 8 Pension and Retirement Plans (Continued)

## Primary Government (City) (Continued)

### *Fire and Police Pension Plan (Continued)*

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 Pension Fund's governing statute was amended by the Texas Legislature effective October 1, 2005. The major changes enacted during the 2005 legislative session are (i) administrative changes to permit the Board to operate more efficiently, (ii) providing for an election to be made by a service retiree to receive a reduced annuity during the retiree's lifetime to provide a death benefit annuity to the retiree's postretirement surviving spouse, (iii) providing for an increased death benefit payment by the Pension Fund to an active member's or retiree's estate if there is no named beneficiary, (iv) changing the threshold year for determining increases in annuities based on CPI increases from 1991 to 1993, (v) allowing the use of a participant's salary beyond 34 years of service for purposes of a Back DROP benefit calculation, and (vi) increasing the service allowed in determining the spouse Back DROP lump-sum payroll from 27 to 30 years. See Note 18, Subsequent Events for new legislation affecting this plan.

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. 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.

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.

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.

# Note 8 Pension and Retirement Plans (Continued)

## Primary Government (City) (Continued)

### *Texas Municipal Retirement System (TMRS) (Continued)*

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.3%, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25 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 25 year period. Currently, the unfunded actuarial liability is amortized over a constant 25 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. See Note 18, Subsequent Events for update on the TMRS plan.

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

## San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), 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, 2005, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2006.

### *Texas Municipal Retirement System (TMRS)*

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the state-wide TMRS, one of more than 800 administered by TMRS, an agent multiple-employer public employee retirement system.

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

# Note 8 Pension and Retirement Plans (Continued)

## San Antonio Water System (SAWS) (Continued)

### *Texas Municipal Retirement System (TMRS) (Continued)*

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

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

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

The unit credit actuarial cost method is used for determining SAWS contribution rate. Both the employees and SAWS make contributions monthly. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis of the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005, valuation is effective for rates beginning January 2007).

### *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:

1. Twenty years of credited service regardless of age, or
2. Five years of credited 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 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

# Note 8 Pension and Retirement Plans (Continued)

## San Antonio Water System (SAWS) (Continued)

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

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

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

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

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

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

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuarial valuation which was performed for the plan year ended December 31, 2005, reflects an unfunded frozen initial liability of $15,541.

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

# Note 8 Pension and Retirement Plans (Continued)

## San Antonio Water System (SAWS) (Continued)

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

**SAWSRP Actuarial Assumptions**

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

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

### *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.

## 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.

**Plan Participants Summary**

| | Plan (Calendar) Year Date January 1, 2006 |
|---|---|
| Retirees and Beneficiaries Currently Receiving Benefits | 1,477 |
| Terminated Employees not yet Receiving Earned Benefits | 50 |
| Current Employees Participating in Plan | 3,779 |
| Total | 5,306 |

# Note 8 Pension and Retirement Plans (Continued)

## CPS Energy (Continued)

### *All Employee Plan (Continued)*

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 age 62 with less than 25 years of service. The Plan is sponsored by and may be amended by CPS Energy. Plan net assets, having a market value of $1,100,000 at December 31, 2006, are held in a separate trust that is audited annually and in which statements include historical trend information. For further information, contact Compensation and Employee Benefits at CPS Energy.

The current policy of CPS Energy is to establish funding levels, considering annual actuarial evaluations 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 at age 40.

Employee contributions commence with the effective date of participation and continue until attaining normal or early retirement age, completion of 44 years of benefit service or termination of employment. 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.

CPS Energy adopted a Restoration Plan effective January 1, 1998, to supplement benefits paid from the Plan due to federal tax restrictions on benefit amounts. The benefits due under the Restoration Plan have been paid annually by CPS Energy.

The total employer and employee pension funding, which includes amortization of past service costs using the unit credit cost actuarial method, is summarized as follows:

**Pension Funding**

| | Fiscal Year Ended January 31, 2007 |
|---|---|
| Employee Contributions | $ 10,005 |
| Company Contributions | 9,626 |
| Total Contributions | $ 19,631 |
| Covered Payroll | $ 210,074 |
| Total Payroll | $ 221,456 |

The actuarially determined contribution requirements for calendar year 2007 were computed using an assumed rate of return of 8.0%. The past service costs for 2007 were amortized over a targeted 15 years. There were no changes in actuarial assumptions or in the actuarial cost method used for the 2007 valuation from those used for the 2006 valuation.

The employee contribution interest crediting rate was 8.0% for 2007. CPS Energy's company contributions to the Plan amounted to 4.4% of covered payroll in fiscal year 2007.

Actuarial valuation methods used for January 1, 2006 included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for actuarial accrued liability, and (c) the level dollar open for amortization of pension service costs. The remaining amortization periods for January 1, 2006 were 29.4 years and were calculated using the level dollar open amortization method.

# Note 8 Pension and Retirement Plans (Continued)

## CPS Energy (Continued)

### *All Employee Plan (Continued)*

Significant actuarial assumptions used for the January 1, 2006, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 4.1%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

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 $176 for the fiscal year ended January 31, 2007. These costs were recorded when paid.

## Three-Year Trend Information

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

Three-Year Trend Information

| Pension Plan | Fiscal Year | Annual Required Contribution (ARC) | Interest on Net Pension Obligation (NPO) | Adjustment To ARC | Annual Pension Cost (APC) | Contributions In Relation to ARC | Increase (Decrease) in NPO | Net Pension Obligation at Beginning of Year | Net Pension Obligation at End of Year | Percentage of APC Contributed |
|---|---|---|---|---|---|---|---|---|---|---|
| Fire and Police | 2005 | $ 49,665 | | | $ 49,665 | $ (49,665) | | | | 100.0% |
| Pension Fund City | 2006 | 51,614 | | | 51,614 | (51,614) | | | | 100.0% |
| of San Antonio | 2007 | 54,952 | | | 54,952 | (54,952) | | | | 100.0% |
| TMRS - | 2005 | $ 25,131 | | | $ 25,131 | $ (25,131) | | | | 100.0% |
| City of | 2006 | 27,077 | | | 27,077 | (27,077) | | | | 100.0% |
| San Antonio | 2007 | 28,455 | | | 28,455 | (28,455) | | | | 100.0% |
| CPS All | 2005 | $ 8,694 | | | $ 8,694 | $ (8,694) | | | | 100.0% |
| Employee Plan [1] | 2006 | 7,162 | | | 7,162 | (7,162) | | | | 100.0% |
| | 2007 | 10,051 | | | 10,051 | (10,051) | | | | 100.0% |
| TMRS - | 2004 | $ 2,013 | | | $ 2,013 | $ (2,013) | | | | 100.0% |
| SAWS [2] | 2005 | 2,101 | | | 2,101 | (2,101) | | | | 100.0% |
| | 2006 | 2,197 | | | 2,197 | (2,197) | | | | 100.0% |
| PMLIC - | 2004 | $ 3,486 | | | $ 3,486 | $ (3,486) | | | | 100.0% |
| SAWS [2] | 2005 | 3,689 | | | 3,689 | (3,689) | | | | 100.0% |
| | 2006 | 4,575 | | | 4,575 | (4,575) | | | | 100.0% |

[1] Fiscal year ended January 31, 2007
[2] Plan year ended December 31, 2006

## Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation 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 | Unit Credit |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 25 Years - Open Period |
| Asset Valuation Method | Amortization Cost |
| Investment Return - City | 7.0% |
| Investment Return - SAWS | 7.0% |
| Projected Salary Increases | None |
| Includes Inflation At | 3.5% |
| Cost of Living Adjustments | None |

# Note 9 Postemployment Retirement Benefits

## Primary Government (City)

In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first program 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. Currently, there are 5,959 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2007, there were 1,316 retirees participating in the program that covers eligible expenses at 80.0% after a deductible of $500 (single)/$1,000 (family) for non-Medicare and $125/$250 for Medicare retirees. 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. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $12,311. For the year ended September 30, 2007, total contributions were as follows:

| Total Contributions | |
|---|---|
| City | $ 3,831 |
| Retiree Premiums | 3,126 |
| Total Contributions | $ 6,957 |

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, 2007, the City had not received any 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.

The second postemployment benefit program of the City provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Health Care Fund. The Health Care Fund was originally established as a fund of the City pursuant to the respective fire and police collective bargaining agreements to provide postemployment health benefits for San Antonio firefighters and police officers who retired on or after October 1, 1989. Effective October 1, 1997, the Health Care Fund was created as a separate and distinct statutory trust. The Health Care Fund is governed by a nine-member board of trustees comprising of the Mayor, two City Council members, two active police officers, two active firefighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The board of trustees is responsible for the investment of the assets of the Health Care Fund. Contribution and benefit levels are currently determined by the respective collective bargaining agreements with the Fire and Police Associations.

## Note 9 Postemployment Retirement Benefits (Continued)

### Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,512 active firefighters and police officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed 20 years of service, and the plan currently provides benefits to 2,400 eligible retirees and dependents. The Health Care Fund reimburses 80.0% of the amount of eligible claims for standard medical costs and 100.0% for hospitalization costs incurred by the retiree and their eligible dependents for Prefund I (firefighters who retired on or after October 1, 1989, but before or on December 3, 1995 and police officers who retired on or after October 1, 1989 and before July 1, 1995). The Health Care Fund for Prefund II retirees (firefighters who retired on or after December 4, 1995 and police officers who retired on or after July 2, 1995) reimburses both the amount of eligible claims for standard medical costs and hospitalization costs incurred by the retiree and their eligible dependents at 80.0%.

Please note, the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2007, total benefit payments for retired employees and eligible beneficiaries was $15,145.

Contribution levels for fiscal year 2007 were established under the current collective bargaining agreements between the City and the Fire and Police Associations. Under the Fire Agreement, the City contributed 8.7% of base pay plus longevity. Firefighters contributed $70 per month to the Health Care Fund. Pursuant to the Police Agreement, the City contributed 9.4% of base pay plus longevity and police officers contributed $70 per month. Total contributions to the Health Care Fund are summarized in the following table:

| Total Contributions to the Health Care Fund | |
|---|---|
| City | $ 18,827 |
| Employees and Retirees Dependent Premiums | 3,499 |
| Total Contributions | $ 22,326 |

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Health Care Fund and whether the existing financing of the Health Care Fund can be reasonably expected to be adequate over a long period of time. Actuarial valuations over the past several years have indicated that contribution levels are not sufficient to amortize the unfunded liability. At the request of the board of trustees, the Health Care Fund's consulting actuaries performed an actuarial valuation dated February 19, 2007, as of October 1, 2006. The results of the actuarial valuation were that, in the opinion of the actuary, the Health Care Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and contributions remain at current levels.

While the results of the studies reflect that significant changes would be required in contribution levels if benefits remain unchanged, the actuarial reports also state that the Health Care Fund does not have a short-term financing problem. As of September 30, 2007, net assets available for postemployment benefits were $198,274, while benefits payments for the fiscal year ended September 30, 2007 were $15,145. See Note 18, Subsequent Events for update on this plan.

### CPS Energy

CPS Energy provides certain health and life insurance benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans: (1) City Public Service of San Antonio Group Health Plan (Health Plan), (2) City Public Service of San Antonio Group Disability Plan (Disability Plan), and (3) City Public Service of San Antonio Group Life Insurance Plan (Life Plan).

## Note 9 Postemployment Retirement Benefits (Continued)

### CPS Energy (Continued)

The Employee Benefit Plans' assets are segregated from CPS Energy's assets. They are separately managed by a committee whose members are appointed by the CPS Energy General Manager and CEO. These plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Compensation and Employee Benefits at CPS Energy.

The financial statements of each of the three Employee Benefit Plans are prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plans apply all GASB pronouncements as well as FASB pronouncements, issued on or before November 30, 1989, unless those FASB pronouncements conflict with or contradict GASB pronouncements.

Funding of the plans is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The plan may be amended by CPS Energy. The annual cost of retiree health and life insurance benefits funded by CPS Energy is recognized as an expense of CPS Energy as employer contributions are made to the programs. These retiree costs approximated $7,000 for the fiscal year ended January 31, 2007. CPS Energy reimbursed a percentage of the monthly premium to certain retirees and their spouses enrolled in Medicare Part B. Costs for this reimbursement were $452 for the fiscal year ended January 31, 2007.

Retired employees and covered dependents contributed $3,200 for their health and life insurance benefits in fiscal year 2007. In fiscal year 2007, there were 2,502 retirees and covered dependents eligible for health and life insurance 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. The plan began receiving subsidy payments in the third quarter of fiscal year 2007; these payments totaled $598 as of January 31, 2007. 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 CPS Energy's plan.

In view of the potential economic significance of these benefits, CPS Energy has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1 valuations were $101,600 for health benefits and $27,000 for life insurance benefits for 2006. The actuarial analysis of the present value of postemployment benefit obligations for all active employees is estimated to be $126,800 for health, $33,900 for life insurance and $6,000 for disability benefits. CPS Energy began partial accrual and funding of projected future benefits in 1992. Funding totaled $3,200 in fiscal year 2007.

For the health plan, the actuarial cost method used was the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS Energy used a present-value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for January 1, 2006, 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) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 10.0% for 2006, decreasing to 5.5% in 2016 and thereafter.

## Note 9 Postemployment Retirement Benefits (Continued)

### San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2006, there were 477 retirees with life insurance and 464 retirees with medical coverage. Please note, the number of retirees is not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual premiums for this coverage. Premiums for medical insurance and life insurance for retirees amounted to $4,519 and $88, respectively, for the period January 1, 2006 through December 31, 2006. Medical benefits are provided to retiree and active employees through a self-insured health plan administered by Blue Cross Blue Shield of Texas. Other similar benefits for active employees are provided through insurance companies.

Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* SAWS will be required to account for and disclose its other postretirement liability for these benefit programs. While the provisions of GASB Statement No. 45 do not require SAWS to account for and disclose its other postretirement liability until December 31, 2007, SAWS is actively reviewing the provisions of this accounting standard and has had a preliminary actuarial valuation performed.

During 2006, SAWS engaged an actuarial consultant to perform a preliminary actuarial valuation of this program and assist in a review of the current provisions of the retirement health and life insurance plans. Based on the preliminary actuarial valuation, as of January 1, 2006, the unfunded actuarial accrued liability for these plans was projected at $326,000. SAWS is currently evaluating various potential cost savings strategies; however, no final decision with respect to these potential strategies has been made at this time.

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

### Joint Operations

CPS Energy is one of three participants in STP, a two-unit nuclear power plant with Unit 1 nominally rated to produce 1,354.25 megawatts and Unit 2 nominally rated to produce 1,281.25 megawatts (these numbers not in thousands). 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 Energy, Inc. and the City of Austin, Texas. Increased by the additional 12.0% interest acquired in fiscal year 2006, CPS Energy's 40.0% ownership in STP represents 1,054.2 megawatts of total plant capacity. On February 2, 2006, NRG Energy, Inc. acquired one of the prior participants of STP, Texas Genco.

On June 28, 2006, NRG Energy, Inc. announced plans to construct two additional reactors at the currently functioning STP site. With this addition, energy production is expected to increase by 2,700.0 megawatts for a total STP production capacity of 5,335.5 megawatts. NRG Energy, Inc. filed a letter of intent with the Nuclear Regulatory Commission (NRC) on June 19, 2006, and will proceed with the permitting and development of the new units. CPS Energy, as co-owner, has an option to also participate in this new construction project and is currently conducting its own feasibility study to determine which course of action is in the best long-term interest of its customers. The costs associated with the feasibility study will be accumulated in a deferred account during the evaluation process. As of January 31, 2007, $765.5 has been spent on the feasibility study.

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

## Joint Operations (Continued)

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STP Nuclear Operating Company (STPNOC), a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. As of January 31, 2007, the agreement had not been amended. 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.

## 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.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1,100,000. The owners of STP currently maintain $2,800,000 of nuclear property insurance. 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 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. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one policy year.

## Nuclear Decommissioning

CPS Energy, together with the other owners of the STP, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC.

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

### Nuclear Decommissioning (Continued)

The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1999, the owners conducted a review of decommissioning costs. The results estimated CPS Energy's share of decommissioning costs at approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs was approximately $397,400 in 2004 dollars. Although there was an increase in decommissioning base costs from the 1998 study to the 2004 study, there was an offsetting decrease in applicable cost escalation assumptions. Therefore, CPS Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $5,000 for fiscal year 2007.

In 1991, CPS Energy started accumulating the decommission funds for the 28.0% portion in an external trust in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2006, CPS Energy has accumulated the most recent annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $87,300 at December 31, 2006.

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, 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 Public Utility Commission of Texas (PUCT) approval as requested in the future, credits or deficiencies in the funding of this trust will be received from or distributed to AEP customers. Excluding securities lending cash collateral, as of December 31, 2006, that trust has accumulated approximately $82,700. According to the 2004 study mentioned above, the estimated decommissioning costs for that trust are approximately $170,300 in 2004 dollars. Based on the most recent annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $37,400 at December 31, 2006.

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

***STP Pension Plan and Other Postretirement Benefits*** - STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions in the amount of $9,900 were made by STP in the 2006 calendar year, of which $7,900 were for the 2005 plan year. Included in the STP pension liability for calendar year 2006 is an additional minimum pension liability, which has been recognized as required due to the Plan's funding status, of $18,800.

Employees whose pension benefits exceed $220 for Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

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

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

## Nuclear Decommissioning (Continued)

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

**STP Pension Plan**
**Schedule of Funding Status (RSI-Unaudited)**
**Calendar Year 2006**

| | Pension Benefits | Other Benefits |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit Obligation - Beginning | $ 153,187 | $ 58,866 |
| Service Cost | 7,498 | 4,332 |
| Interest Cost | 9,101 | 3,299 |
| Amendments | 8,454 | (2,884) |
| Actuarial Loss | 2,021 | (8,194) |
| Benefits Paid | (2,061) | (2,233) |
| Benefit Obligation - Ending | 178,200 | 53,186 |
| Change in Plan Assets: | | |
| Fair Value of Plan Assets - Beginning | 100,808 | 9,975 |
| Actual Return on Plan Assets | 9,070 | 451 |
| Employer Contributions | 9,869 | 2,233 |
| Benefits Paid | (2,061) | (2,233) |
| Fair Value of Plan Assets - Ending | 117,686 | 10,426 |
| Funded Status - Ending | (60,514) | (42,760) |
| Unrecognized Net Actuarial Loss | 32,954 | 23,419 |
| Unrecognized Prior Service Cost | 10,557 | (16,656) |
| Unrecognized Transition Obligation | | 431 |
| Net Amount Recognized | (17,003) | (35,566) |
| Additional Minimum Pension Liability | (18,839) | |
| Accrued Benefit Cost | $ (35,842) | $ (35,566) |
| Weighted-average Assumptions: | | |
| Discount Rate | 5.8% | 5.8% |
| Expected Return on Plan Assets | 8.5% | 8.5% |
| Rate of Compensation Increase | 3.0% | 3.0% |

# Note 11 Commitments and Contingencies

## Primary Government (City)

### *Grants*

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2007. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2007 were $13,140.

# Note 11 Commitments and Contingencies (Continued)

## Primary Government (City) (Continued)

### *Capital Improvement Program*

The City will be undertaking various capital improvements during fiscal year 2008. The estimated cost of these improvements is $539,494, of which $188,220 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 involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The City has agreed to take an aggressive defensive posture on all litigation. While the City sets aside funds to defray the costs of investigations, costs of litigation, the appellate process and, when necessary, cost of judgments, there is no accurate means to assess the potential need for these contingent funds. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below will approximate $9,381, which is included as a component of the reserve for claims liability in the amount of $19,283. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the self-insurance funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements. The lawsuits specifically noted below are those cases that if the City were to lose would be deemed to materially effect the financial statements.

*Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio*. This is a case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than $23,000 against the City, the trial court immediately reduced this by $6,000. On appeal, the Fourth Court subsequently sided with the City and reduced the judgment further by eliminating $10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes if personal injuries are recovered, damages are capped at $250 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006. No further action or decision has been made since that date.

*Samantha Rivera v. et. al. v. City of San Antonio and SAPD Officers Reynaldo Montes and Rachel Barnes* The Plaintiff sued the City and officers who killed the Plaintiff's husband for federal constitutional violations as well as battery under state law. The claims against the City have been dismissed, with claims still pending against the police officers. Exposure to the City related to costs associated with providing counsel for the officers could range from $250 to $500. The case is set for trial on July 21, 2008.

*Argonaut Southwest Insurance Company v. City of San Antonio* The Plaintiff's insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. The Plaintiff claims damages in excess of $500. This case is in preliminary stages.

## Note 11 Commitments and Contingencies (Continued)

### Primary Government (City) (Continued)

***Litigation (Continued)***

*Brooks Hardee, et. al. v. City of San Antonio; 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; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; John M. Schaefer, et. al. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et. al.; Lakeside Joint Venture, et. al. v. City of San Antonio* These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately ten (10) related cases. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

***Arbitrage***

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured. Arbitrage rebates of $828 and $136 were accrued for the governmental activities and Airport System (business-type activities), respectively at September 30, 2007.

***Leases***

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for the fiscal year ended September 30, 2007 was $10,717. As of September 30, 2007, the leases provide for the following future minimum rentals:

| Leases Revenues | | | | |
|---|---|---|---|---|
| | Governmental Activities | Airport System | Parking System | Total |
| Fiscal year ending September 30: | | | | |
| 2008 | $ 1,617 | $ 9,063 | $ 133 | $ 10,813 |
| 2009 | 1,212 | 7,670 | 117 | 8,999 |
| 2010 | 928 | 4,392 | 117 | 5,437 |
| 2011 | 825 | 2,949 | 117 | 3,891 |
| 2012 | 682 | 2,427 | 36 | 3,145 |
| 2013-2017 | 2,342 | 11,636 | 21 | 13,999 |
| 2018-2022 | 1,230 | 6,176 | | 7,406 |
| 2023-2027 | 500 | 3,714 | | 4,214 |
| 2028-2032 | 500 | 1,033 | | 1,533 |
| 2033-2037 | 500 | | | 500 |
| 2038-2042 | 500 | | | 500 |
| 2043-2047 | 25 | | | 25 |
| Future Minimum Lease Rentals | $ 10,861 | $ 49,060 | $ 541 | $ 60,462 |

# Note 11 Commitments and Contingencies (Continued)

## Primary Government (City) (Continued)

### *Landfill Postclosure Care Costs*

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2007 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,475. This represents an increase of $471 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services, as well a re-estimation of ground water monitoring costs resulting from the cancellation of a third party contract that occurred in the second quarter of fiscal year 2008.

### *Texas Commission on Environmental Quality (TCEQ) Financial Assurance*

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission, related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

### *Brooks City-Base - Electric and Gas Utilities*

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

In the fiscal year ended January 31, 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. For fiscal year 2007 obligations were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

# Note 11 Commitments and Contingencies (Continued)

## Primary Government (City) (Continued)

### *Brooks City-Base - Electric and Gas Utilities (Continued)*

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022 BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested $3,700 and BDA has reduced its obligation, net of annual interest, by $800.

## CPS Energy

### *Litigation*

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

### *Leases*

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. This converted to a production royalty when mining began in July 2005. All advance royalties previously received by CPS Energy are being deducted from production royalties at the same rate at which they were paid. The CPS Energy royalty falls within industry standard terms and is based on production volumes subject to certain minimum annual amounts. The base term of the lease runs through 2013. Renewal and extension options could result in ALCOA extending the lease to 2043.

On April 13, 2007 CPS Energy signed a Purchase and Sale Contract with a third party for the sale of the lignite properties.

### *Other*

Purchase and construction commitments amounted to approximately $2,300,000 at January 31, 2007. This amount includes provisions for natural gas purchases expected through June 2010; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $1,600,000. This amount includes provisions for wind power through December 2027, landfill power through December 2020, capacity and other power purchases through December 2009, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

The PUCT promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. Reported costs are based on payments to other transmission providers, less receipts for wholesale transmission services that CPS Energy provided. CPS Energy's cost for calendar year 2006 was approximately $18,500. CPS Energy has not calculated its cost for calendar year 2007.

# Note 11 Commitments and Contingencies (Continued)

## CPS Energy (Continued)

### *Other (Continued)*

The Tax Increase Prevention and Reconciliation Act of 2005 enacted on May 17, 2006, added section 4965 to the Code (Section 4965), which imposes an excise tax with respect to "prohibited tax shelter transactions" on certain "tax exempt entities," including a state or political subdivision thereof, such as the City. CPS Energy, acting for the benefit of the City, entered into a series of leasing transactions in 2000, which may be considered prohibited tax shelter transactions.

Although the scope and applicability of Section 4965 is not clear, under one possible reading the IRS could assert that CPS Energy would be subject to the excise tax on a basis similar to a taxable entity. Accordingly, the City could be liable for an excise tax at the highest corporate tax rate (currently 35.0%) upon the greater of its net income for the taxable year properly attributable to the leasing transactions or 75.0% of the proceeds received by the City for the taxable year attributable to the leasing transactions. There are also additional excise tax provisions relating to "entity managers" (generally, persons with responsibility within the tax exempt entity) and for certain "knowing" transactions, in which the tax exempt entity knew or had reason to know that it was entering into a prohibited tax shelter transaction. In general, the new excise tax is effective for taxable years ending after the date of enactment of Section 4965.

CPS Energy has not been able to definitely determine the amount, if any, of the potential excise taxes it would be responsible for under Section 4965. However, the excise taxes under one scenario could exceed $12,000 for the taxable year ending 2007. CPS Energy has not attempted to make any calculations for later taxable years. It is possible under some interpretations of Section 4965 that CPS Energy would not owe any excise taxes with respect to the leasing transactions.

In the fiscal year ended January 31, 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. For fiscal year 2007 obligations 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 $3,700 and BDA has reduced its obligation, net of annual interest, by $800.

## San Antonio Water System (SAWS)

### *Litigation*

SAWS is the subject of various claims and litigation, which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

# Note 11 Commitments and Contingencies (Continued)

## San Antonio Water System (SAWS) (Continued)

### *Litigation (Continued)*

As of December 31, 2005, SAWS recorded a contingent liability of approximately $3,900 related to contractual and/or legal expenditures that are expected to be incurred in the future as a result of actions taken by SAWS during 2005. As the matters that gave rise to this contingent liability were not resolved during 2006, no adjustment to this amount was made during the period. While the exact amount of any potential liability that may arise from these actions is still indeterminable, management believes that the amount recorded is a reasonable estimate.

In January 2006, SAWS settled a legal claim regarding the amount of water pumped under one of its existing water rights agreements. As part of this settlement, SAWS agreed to pay $924 related to past damages claimed and further modified the existing agreement to require SAWS to make minimum annual ground water payments of $338 on a take or pay basis. Under the terms of this agreement, SAWS is scheduled to make total payments of $4,400 between 2007 and 2020. Additionally, SAWS has 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.

### *Other*

As of December 31, 2006, SAWS has various commitments relating to the procurement of future water supplies. A summary of these commitments for the next 30 years is provided below. As with any estimates, the actual amounts paid could differ materially.

| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter |
|---|---|---|---|---|---|---|
| Firm purchased water obligations | $ 3,605 | $ 3,687 | $ 3,773 | $ 3,862 | $ 3,956 | $ 148,771 |
| Firm purchased water obligations (acre feet) | 4 | 4 | 4 | 4 | 4 | 99 |
| Variable purchased water obligations | $ 6,002 | $ 6,135 | $ 6,275 | $ 6,421 | $ 6,575 | $ 115,586 |
| Variable purchased water obligations (acre feet) | 7 | 7 | 7 | 7 | 7 | 87 |
| Leased water rights | $ 2,260 | $ 1,832 | $ 1,149 | $ 897 | $ 1,691 | $ 58,639 |

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' Western Canyon water supply project. Under this contract, SAWS will receive between 3,950 and 10,750 acre feet of water annually during the years 2006-2037 at prices ranging from $875 to approximately $2,200 per acre foot (neither the acreage nor dollars per acre are in thousands). SAWS has an option to extend this contract until 2077 under new payment terms.

SAWS has entered into contractual agreements 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 2007 and others continuing until cancelled by SAWS. The annual cost per acre foot under these agreements ranges from $10 to $100 per acre foot (neither the acreage nor dollars per acre are in thousands). Some of the agreements contain future price escalators.

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $196,700 as of December 31, 2006. Funding of this amount will come from excess revenues of SAWS, contributions from developers, and restricted assets.

# Note 12 Risk Financing

## Primary Government (City)

### *Property and Casualty Liability*

At September 30, 2007, the City has excess insurance coverage through State National Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Health Benefits Liability Coverage. Great American Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third-party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

### *Employee Health Benefits*

The City provides its current employees with a comprehensive employee health benefits program including coverage for medical, dental, and life insurance, vision, dependent care reimbursement accounts, and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

### *Workers' Compensation*

The City self-insures for workers' compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism that the City, as a member, utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third-party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Workers' Compensation Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2007, the City has excess workers' compensation coverage through the State National Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

### *Unemployment Compensation Program*

The Unemployment Compensation Program Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

### *Extended Sick Leave Program*

The Extended Sick Leave Program Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

# Note 12 Risk Financing (Continued)

## Primary Government (City) (Continued)

### *Employee Wellness Program*

The Employee Wellness Program Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program Fund was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment.

### *Claims Liability*

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

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, 2007:

| Fund | October 1, | Estimates | Claims | Payments | September 30, |
|---|---|---|---|---|---|
| Insurance Reserve: | | | | | |
| Fiscal Year 2006 | $ 19,199 | $ 14 | $ 5,413 | $ (5,413) | $ 19,213 |
| Fiscal Year 2007 | 19,213 | 70 | 6,712 | (6,712) | 19,283 |
| Employee Health Benefits: | | | | | |
| Fiscal Year 2006 | $ 8,548 | $ 2,038 | $ 75,416 | $ (75,416) | $ 10,586 |
| Fiscal Year 2007 | 10,586 | 1,382 | 78,072 | (78,072) | 11,968 |
| Workers' Compensation: [1] | | | | | |
| Fiscal Year 2006 | $ 21,879 | $ 2,125 | $ 8,261 | $ (8,261) | $ 24,004 |
| Fiscal Year 2007 | 24,004 | 19 | 8,290 | (8,290) | 24,023 |

[1] The Workers' Compensation Liability Balance of $24,023 is comprised of $21,697 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 is recorded in proprietary funds.

# Note 12 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 $4,300,000 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 for general property and turbine generators/transformers. CPS Energy did not have any claims settlements that have exceeded insurance 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 and
- Other property and liability insurance coverage, which includes employee travel, event insurance, and commercial crime.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was performed in the third quarter of fiscal year 2007.

The remaining property reserve balance at January 31, 2007, related 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.

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.

Beginning in fiscal year 2007, CPS Energy's reserve program was modified to record all claims against the reserve, whereas in prior years only significant claims were recorded against the reserve.

**CPS Energy**
**Schedule of Changes in Claims Liability**

| Fund | Liability February 1, | Claims Adjustments | Claims Payments | Liability January 31, |
|---|---|---|---|---|
| Property Insurance: | | | | |
| Fiscal Year 2006 | $ 6,845 | $ (3,208) | $ - | $ 3,637 |
| Fiscal Year 2007 | 3,637 | 101 | | 3,738 |
| Employee and Public Liability Claims: | | | | |
| Fiscal Year 2006 | $ 6,035 | $ 3,449 | $ (341) | $ 9,143 |
| Fiscal Year 2007 | 9,143 | 2,118 | (2,590) | 8,671 |

***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 July 31, 2006, 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.

# Note 12 Risk Financing (Continued)

## CPS Energy (Continued)

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 2007, the commodity options and/or hedge instruments offset one another to achieve unrealized losses of approximately $893.

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, 2007:

| Fuel Derivative Transactions as of January 31, 2007 | | |
|---|---|---|
| **Type of Transaction** | **Duration** | **Volumes in MMBTU** |
| Long Call | Dec 2007 - Mar 2008 | 6,310,000 |
| Short Call | Dec 2007 - Mar 2008 | 6,310,000 |
| Short Put | Dec 2007 - Mar 2008 | 6,310,000 |
| Long NG Futures | Mar 2007 | 50,000 |
| Long Basis Swap | Feb 2007 - Mar 2007 | 147,500 |

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, 2007, the total cost of the outstanding hedge instruments was $31, with a fair value of $(855).

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 whether 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.

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 houses 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, the 28.0% Decommissioning Trust and the 12.0% Decommissioning Trust 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. Prior to January 31, 2007, the entities were authorized to loan up to 75.0% of their investments in securities lending transactions. The Investment Policies were revised effective January 31, 2007, authorizing up to 100.0% of investments to be loaned.

# Note 12 Risk Financing (Continued)

## CPS Energy (Continued)

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 Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At year-end, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts the Company and/or the 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.

***Direct Investments*** - At January 31, 2007, there was a total of $779,600 in securities, or 65.5% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $626,400 in cash collateral and $165,900 in securities collateral, or 101.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $295 in fiscal year 2007, of which 30.0% was paid as fees to the lending agent totaling $88.

# Note 12 Risk Financing (Continued)

## CPS Energy (Continued)

***Decommissioning Trusts*** - At December 31, 2006, the 28.0% and 12.0% Decommissioning Trusts had respective totals of $75,600 and $36,200 in securities, or 29.7% and 44.0% of investments, out on loan to brokers/dealers. In exchange, the Trusts received $75,200 and $34,800 in cash collateral and $2,800 and $2,500 in securities collateral, respectively, or a total of 103.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trusts amounted to $58 and $16 in calendar year 2006, of which 30.0% was paid as fees to the lending agent totaling $18 and $5, respectively.

## 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, public official's liability claim, and $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, 2006, there were no reductions in insurance coverage from the previous year and there were no claims incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year for SAWS. SAWS has recorded accrued claims liability in the amount of $2,803 as of December 31, 2006, which is reported as a current liability of SAWS. 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 fiscal year was 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 |
|---|---|---|---|---|
| Dec. 31, 2006 | $ 2,552 | $ 2,003 | $ (1,752) | $ 2,803 |
| Dec. 31, 2005 | $ 2,477 | $ 1,542 | $ (1,467) | $ 2,552 |

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## Note 13 Interfund Transfers

The following is a summary of interfund transfers for the City for the year ended September 30, 2007:

| Summary Table of Interfund Transfers<br>Year Ended September 30, 2007 | Transfers From Other Funds | Transfers To Other Funds |
|---|---|---|
| General Fund: | | |
| Airport System | $ 71 | $ - |
| Debt Service Fund | | 760 |
| Categorical Grant-In Aid | 320 | 4,849 |
| Internal Service Funds | | 4,899 |
| Nonmajor Governmental Funds | 14,697 | 104,695 |
| Nonmajor Enterprise Fund | 884 | 8,417 |
| Total General Fund | 15,972 | 123,620 |
| Debt Service Funds: | | |
| General Fund | 760 | |
| Nonmajor Enterprise Funds | 134 | |
| Nonmajor Governmental Funds | 19,478 | |
| Total Debt Service Funds | 20,372 | |
| Categorical Grant-In Aid: | | |
| General Fund | 4,849 | 320 |
| Nonmajor Governmental Funds | 2,697 | 1,183 |
| Total Categorical Grant-In Aid | 7,546 | 1,503 |
| Airport System Fund: | | |
| General Fund | | 71 |
| Internal Service Funds | | 241 |
| Nonmajor Governmental Funds | 6 | |
| Total Airport System Fund | 6 | 312 |
| Internal Service Funds: | | |
| General Fund | 4,899 | |
| Airport System | 241 | |
| Internal Service Funds | 1,767 | 1,767 |
| Nonmajor Governmental Funds | 3,760 | 613 |
| Nonmajor Enterprise Funds | 494 | |
| Total Internal Service Funds | 11,161 | 2,380 |
| Nonmajor Governmental Funds: | | |
| General Fund | 104,695 | 14,697 |
| Debt Service | | 19,478 |
| Categorical Grant-In Aid | 1,183 | 2,697 |
| Airport System | | 6 |
| Internal Service Funds | 613 | 3,760 |
| Nonmajor Governmental Funds | 184,514 | 184,514 |
| Nonmajor Enterprise Funds | 195 | |
| Total Nonmajor Governmental Funds | 291,200 | 225,152 |
| Nonmajor Enterprise Funds: | | |
| General Fund | 8,417 | 884 |
| Debt Service | | 134 |
| Internal Service Funds | | 494 |
| Nonmajor Governmental Funds | | 195 |
| Total Nonmajor Enterprise Funds | 8,417 | 1,707 |
| Total | $ 354,674 | $ 354,674 |



*Amounts are expressed in thousands*

## Note 13 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

## Note 14 Reconciliation of Government-Wide and Fund Financial Statements

### Explanation of certain differences between the governmental funds Balance Sheet and the government-wide Statement of Net Assets

The governmental funds Balance Sheet includes reconciliation between total fund balances - total governmental funds and total net assets governmental activities as reported in the government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds." The detail of the $6,851 is as follows:

| | |
|---|---|
| Revenues previously reported as unearned in the fund financial statements | $ 15,646 |
| Receivable applicable to governmental activities, which are not available in the current period | 565 |
| Unearned revenues previously reported as income in the fund financial statements | (9,360) |
| 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 nor are associated unamortized assets financial resources | $ 6,851 |

### 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 $6,120 are as follows:

| | |
|---|---|
| Compensated Absences | $ (13,956) |
| Arbitrage Rebate Expense | (427) |
| Interest Expense | 61 |
| Principal Paid on Leases | 8,202 |
| Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities | $ (6,120) |

# Note 15 Deficits in Fund Balances / Net Assets

## Special Revenue Funds

During the course of the fiscal year 2006 financial audit the Finance 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 identified $11,713 in deficit fund balances identified in grant projects. The deficit amount was further researched and refined during fiscal year 2007 and resulted in a final deficit amount of $10,504 in the Categorical Grant-in-Aid and $979 in the Community Development Program. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts have been incorporated into the City's annual budget process and are scheduled to be funded over the next five years.

The Golf Course Fund had a deficit fund balance of $1,279 as of September 30, 2007. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor, fuel, and equipment maintenance costs have contributed to the deficit. The City and MGA-SA entered into an agreement for MGA-SA to begin managing City owned golf courses starting October 2007 with a complete transition by March 2009. The agreement included that the City shall be paid 50.0% excess revenue from the courses' operations to reduce City deficits. In addition MGA-SA would also reimburse the City for personnel and equipment lease costs paid by the City for MGA-SA operations.

Development and Planning Services Fund had a deficit fund balance of $2,917 as of September 30, 2007. Despite fee increases that went into effect June 4, 2007, heavy rains and a slump in the housing market resulted in an 18.0% decrease in new residential permits, which attributed to the deficit balance. The City will freeze vacant positions and reduce other expenditures in the department in fiscal year 2008, in addition to performing an analysis of departmental expenditures that would be eligible for general fund contributions.

San Antonio Industrial Development Authority (SAIDA) is a blended component unit that has a deficit fund balance of $3 as of September 30, 2007. The component unit has been using its fund balance to pay for operational costs for at least the past three years. However, in fiscal year 2007 the fund balance was fully depleted. In fiscal year 2008, the SAIDA has entered into an agreement with the Tindall Corporation in which revenue bonds will be issued. Tindall has applied to the Texas Bond Review Board. Upon approval of the application, Tindall Corporation will reimburse SAIDA for administrative expenses, including the deficit fund balance.

## Capital Projects Funds

As of September 30, 2007, deficit fund balances are reported in the General Obligation Project and the 2007 General Obligations Bond Fund in the amounts of $9,934 and $12, respectively. These deficit balances were identified during a capital project review and clean up which began in fiscal year 2007 and extended through fiscal year 2008. These deficits will be addressed through the identified bond authorization and other funds as necessary.

# Note 16 Other Disclosures

## Donor Restricted Endowment

The City has four Permanent Funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

# Note 16 Other Disclosures (Continued)

## Donor Restricted Endowment (Continued)

The San Jose Burial Park Fund generated $104 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.

The Carver Cultural Center Endowment Fund generated $17 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $553 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, administered, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $15 in interest. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

# Note 17 Prior Period Restatement

***Primary Government (City)***

In the process of preparing the City's 2007 financial statements, the City identified certain errors in previously reported capital asset amounts. As a result the net assets/fund balances of the City's Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds have been restated to give effect to the following:

| Reporting Unit | Capital Assets as Previously Reported | Correction | Capital Assets as Restated |
|---|---|---|---|
| Governmental Activities | $ 3,070,178 | $ (13,809) | $ 3,056,369 |
| Business-Type Activities | 319,870 | (24,305) | 295,565 |
| Airport System Fund | 284,073 | (24,262) | 259,811 |
| Aggregate Remaining Funds | 86,358 | (363) | 85,995 |

## Note 17 Prior Period Restatement (Continued)

***Primary Government (City) (Continued)***

In fiscal years 2006 and prior, annual depreciation expense for completed assets that should have been placed in service in Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds was under reported in the Governmental and Business-Type Statement of Activities by $(18,909) and $(2,541), and in the Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds for the Airport System and Aggregate Remaining Funds by $(2,379) and $(162), respectively. It was additionally noted that a portion of depreciable assets were not properly being depreciated resulting in an (under)/overstatement of accumulated depreciation in Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds Statement of Net Assets by $(8,092), $367, $225 and $(178).

Per review of the capital asset subsidiary ledger for construction in progress assets, projects were identified in the Airport System Fund that would not become City assets. The balance of these projects, $(21,610), was expensed to net assets.

Per review of the construction in progress projects listing, projects funded by Governmental Activities and Business-Type Activities were not previously settled into construction in progress, rather they were shown as expenses. These asset additions were mitigated by other duplicated entries, by costs that could not be assigned to a specific asset or by variances in the reconciling of asset balances to the subledger detailed listings and therefore were expensed to net assets. These adjustments resulted in a net increase of $13,192 and $306 in Governmental Activities and Aggregate Remaining Funds' net assets and a net decrease of $(2,181) and $(2,142) in Business-Type Activities and the Airport System, respectively.

The impact on the government wide statements to place these assets in service, net of applicable depreciation, is depicted below:

| | Governmental Activities | Business-Type Activities | Total | Discretely Presented Component Unit |
|---|---|---|---|---|
| Net Assets, Beginning of Year | $ 2,286,000 | $ 275,704 | $ 2,561,704 | $ 4,402,821 |
| WDC Reclass | (596) | | (596) | 596 |
| SAHTF Beginning Balance | (145) | | (145) | |
| Accumulated Depreciation | (27,001) | (2,174) | (29,175) | |
| Recognition of Noncapitalizable Outlay | | (21,610) | (21,610) | |
| Net unsettled costs to construction in progress | 11,160 | (1,644) | 9,516 | |
| Duplicate entry and other CIP asset cleanup | 4,621 | 1,107 | 5,728 | |
| Reconciliation of Assets to Subledger | (2,589) | 16 | (2,573) | |
| SADA Restatement | | | | (83) |
| Net Assets, Beginning of Year - as restated | $ 2,271,450 | $ 251,399 | $ 2,522,849 | $ 4,403,334 |

## Note 17 Prior Period Restatement (Continued)

*Primary Government (City) (Continued)*

The impact on the fund-level statements is depicted below:

| | Airport Systems | Aggregate Remaining Funds |
|---|---|---|
| Net Assets Beginning of Year - previously reported | $ 252,479 | $ 691,649 |
| WDC Reclass | | (596) |
| SAHTF Beginning Balance | | 6 |
| Accumulated Depreciation | (2,154) | (340) |
| Recognition of Noncapitalizable Outlay | (21,610) | |
| Net unsettled costs to construction in progress | (1,644) | |
| Other CIP Asset Cleanup | 1,146 | (39) |
| Reconciliation of Assets to Subledger | | 539 |
| Net Assets Beginning of Year - as restated | $ 228,217 | $ 691,219 |

*Primary Government (City) and Westside Development Corporation (WDC)*

The Westside Development Corporation (WDC), a discretely presented component unit, is handled by City staff with financial statements included in the City's general ledger system. The City advanced $600 to WDC in fiscal year 2006, prior to the physical incorporation of the entity. As a result an ending net asset/fund balance of $596 was included in the City's governmental activities net asset/fund balance at September 30, 2006. This amount was removed from the City's beginning balance and included in the discretely presented component unit's financials for the year ended September 30, 2007.

*San Antonio Housing Trust Finance Corporation*

The San Antonio Housing Trust Finance Corporation (SAHTFC), a blended component unit, in previous years was not reported on the City's CAFR because the dollars flowing through SAHTFC were limited to less than $1 per month as well as the fact that the statements were not audited. In fiscal year 2007, increased funds in SAHTFC resulted in an annual audit. Since financial activity was present in prior years, but not reported in the City's CAFR, the beginning balance in the Statement of Activities and Statement of Revenues, Expenditures, and Changes in Fund Balances has been adjusted by $(145) and $6, respectively.

*San Antonio Development Authority (SADA)*

In April 2008, management completed an internal analysis and corrective reconciliation of certain errors that had occurred in the prior year resulting in the misstatement of land, receivables, accounts payable, and net assets/fund balance for that year. An adjustment for $(83) has been made to decrease unrestricted net assets/fund balance as of September 30, 2006.

# Note 18 Subsequent Events

## Primary Government (City)

### *Debt Transactions*

On December 18, 2007, the City issued $121,220 in General Improvement and Refunding Bonds, Series 2007. The Bonds were issued to finance general improvements of the City and to refund the City's $60,000 Tax Notes, Series 2007. Concurrently, the City issued $106,755 in Combination Tax and Revenue Certificates of Obligation, Series 2007 to fund various capital projects. The Bonds and Certificates have maturities ranging from 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

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

On December 19, 2007, the City issued $82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued $74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects. The Bonds have maturities ranging from 2008 to 2032, with interest rates ranging from 5.0% to 5.3%.

On June 12, 2008, the City Council authorized the issuance, sale, and delivery of approximately $135,000 in City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008. Approximately $105,000 will be issued to refund the Hotel Occupancy Tax Revenue Bonds, Series 2004B. Additionally, approximately $30 in new money is being issued for renovation to the Lila Cockrell Theatre, included are ADA compliance improvements, asbestos abatement, renovation of all interior finishes and mechanical, electrical, and plumbing upgrades, as well as other expansion-related improvements. The Bonds have maturities ranging from 2008 to 2034, with interest rates set weekly.

### *Conduit Debt*

On November 1, 2007, the City of San Antonio, Texas Empowerment Zone Development Corporation issued $18,000 in Contract Revenue Empowerment Zone Bonds (Drury Southwest Hotel Project), Series 2007. The proceeds of the Bonds will be loaned to Alamo National Building Development, LP and will be used for acquiring, renovating, and redeveloping the Alamo National Bank building and parking facilities into an approximately 390-room hotel. The Bonds are not debt of the City, and will mature in 2037, with interest rates set weekly.

On June 12, 2008, the City Council passed a resolution authorizing the City of San Antonio Industrial Development Authority (SAIDA) to issue $10,000 in tax-exempt and $4,000 in taxable Industrial Revenue Bonds (IRB) to assist in financing the development of Tindall Corporation. SAIDA will collect $20 from Tindall to cover administrative and closing fees upon issuance of the bonds.

### *University Health System*

In 2004, the City of San Antonio and the Bexar County Citizen's Commission on City/County Service Integration recommended the establishment of a new city-county health authority that would combine the San Antonio Metropolitan Health District (SAMHD) and the University Health System (UHS). In October 2006, upon renewal of an existing interlocal agreement between the SAMHD and UHS, both entities added elements to the agreement to formally investigate opportunities to combine functions that would reduce duplication of services and enhance coordination of care. The Joint Planning and Operations Council (JPOC) was formed, comprised of senior staff from SAMHD and UHS, to explore areas for consolidation.

# Note 18 Subsequent Events (Continued)

## Primary Government (City) (Continued)

### *University Health System (Continued)*

During the summer of 2007, the JPOC proposed to City Council and to the UHS Board of Managers that all individual clinical preventative health services should transition from SAMHD to UHS, including the personnel and grants that support these activities. These services include prenatal care, family planning, well-child screenings, breast and cervical cancer screenings, senior health screenings, and refugee health services. This transition occurred February 4, 2008. The City will pay UHS an amount not to exceed $4,203 beginning February 4, 2008 through December 31, 2008. In May 2008, $2,933 was paid to UHS, with the remaining balance to be calculated and paid in the City's Fiscal Year 2009. 125 SAMHD staff positions were transitioned to UHS and eight SAMHD grants were terminated as of January 31, 2008 for UHS to assume. UHS will be operating in ten facilities (nine SAMHD and one SAHA) and will have use of all equipment and City support services at no cost through this transition period.

### *Fire and Police Pension Plan*

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

The Pension Fund's annual required contribution for fiscal year 2008 is determined by Pension Law. The Pension Fund's October 1, 2007 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase 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 amortized as a level percentage of projected payrolls on an open basis.

The remaining amortization period at October 1, 2007 was 8.7 years which, as reported under GASB guidelines, does not consider the assumption of a 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.

# Note 18 Subsequent Events (Continued)

## Primary Government (City) (Continued)

### *Fire and Police Health Care Fund*

Effective October 1, 2007, Retiree Health Care Law was amended by the 80th Texas Legislature. Among other things, the law amended member, beneficiary and participating municipality's contributions to the Fire and Police Retiree Health Care Fund, San Antonio. Member and beneficiary contributions are set at specified rates applied to specified wage bases. For the years ending September 30, 2008, 2009, 2010, 2011 and years thereafter, the specified rates are 2.0%, 2.7%, 3.4%, 4.1% and 4.7%, respectively. The participating municipality's (the City of San Antonio) contributions will be set at 9.4% of specified wage base over the next 10 years. Additionally, if after 10 years, the Unfunded Actuarial Accrued Liability (UAAL) cannot be amortized over a period of 30 years or less, City and employee contributions will be increased by a percentage not to exceed 10.0% each year until the UAAL can by amortized over a period of 30 years or less.

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2007 indicates that the UAAL, calculated in compliance with GASB regulations, was reduced from $540,100 to $325,300. The study further indicates that after a 10 year period maintaining the City's contribution at 9.4%, with an additional 10.0% increase in fiscal year 2018 and a 2.6% increase in fiscal year 2019, the Health Care Fund's amortization period for the UAAL is projected to be 30 years.

### *Texas Municipal Retirement System*

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.

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

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

# Note 18 Subsequent Events (Continued)

## Primary Government (City) (Continued)

### *Texas Municipal Retirement System (Continued)*

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

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

## Main Plaza Conservancy

In January 2008, the City entered into an agreement with the Main Plaza Conservancy (MPC) for the management of Main Plaza. The MPC is a 501 (c)(3) organization, incorporated in October 2007. The purpose of the MPC is to operate and maintain 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. The MPC is governed by an eleven member board of directors, with one representative from the City and one representative from the County. The 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. The MPC will be reported in the future as a discretely presented component unit.

## CPS Energy

On February 8, 2007, CPS Energy issued $128,900 of tax-exempt New Series 2006B Revenue Refunding Bonds. The true interest cost on these bonds was approximately 4.0%. On February 9, 2007, the bond proceeds were used to refund $77,100 par value of the taxable New Series 1998B Bonds and $41,700 par value of the taxable New Series 2000B Bonds. At that time CPS Energy cash defeased $6,500 par value of the taxable New Series 1998B Bonds that could not be advance refunded with tax-exempt debt. The refunding transactions resulting in net present value debt service savings of $6,700, or approximately 5.3% of the par amount of the bonds refunded.

On May 29, 2008, the City Council authorized the issuance of approximately $300,000 "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2008". CPS Energy will use the proceeds of this issuance to continue financing construction work in process and to take advantage of the tax-exempt market's currently low cost of long-term borrowing.

## San Antonio Water System (SAWS)

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

## Note 18 Subsequent Events (Continued)

### San Antonio Water System (SAWS) (Continued)

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

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

In late January 2008, as a result of a number of general financial market challenges, SAWS began to experience conditions in which the interest payments on its variable-rate bonds exceeded the variable-rate payments received on the associated swap. SAWS has undertaken certain measures to mitigate the impact of this basis risk; however, at this point in time SAWS has not been able to completely eliminate such risk. Since January 23, 2008, interest payments on the Series 2003 have exceeded the amounts received under the swap by approximately $220. SAWS is currently evaluating different approaches to further mitigate or eliminate such risk going forward. The potential impact of this ongoing risk is that SAWS will incur an effective interest rate greater than the synthetically fixed rate of 4.2% on the $114,000 outstanding balance of the Series 2003 bonds. Management does not expect that any higher effective interest rate will have a material adverse affect on SAWS' financial position or results of operation.

On March 16, 2008, JP Morgan Chase & Co. (JP Morgan) announced it is acquiring The Bear Stearns Companies Inc. (Bear Stearns). The Boards of Directors of both companies have unanimously approved the agreement. JP Morgan is guaranteeing the trading obligations of Bear Stearns and its subsidiaries, including swap agreements entered into by Bear Stearns FPI, and is providing management oversight for its operations. Other than shareholder approval, the closing is not subject to any material conditions. The transaction is expected to have an expedited close by the end of the calendar second quarter 2008. The Federal Reserve, the Office of the Comptroller of the Currency and other federal agencies have given all necessary approvals. SAWS does not anticipate the merger to have any adverse impact on the swap agreement, including to trigger any termination rights thereunder, and will continue to evaluate any risk associated with the counterparty to the swap.

On March 4, 2008, SAWS received notification from The Texas Commission on Environmental Quality (TCEQ) informing SAWS that allegations of violations of permit effluent limits under a SAWS Texas Pollutant Discharge Elimination System (TPDES) permit were noted during a record review. As TCEQ has not made a determination on these allegations, no estimate of liability can be made at this time.

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

City of San Antonio, Texas

# *Required Supplementary Information Other Than MD&A (Unaudited)*

# City of San Antonio, Texas

*GENERAL FUND:*

- *Budgetary Comparison Schedule*
- *Schedules of Revenues, Expenditures, Encumbrances and Changes in Fund Balances Budget and Actual (Non-GAAP Budgetary Basis)*
- *Schedule of Revenues Compared to Budget (Non-GAAP Budgetary Basis)*
- *Schedule of Expenditures Compared to Budget (Non-GAAP Budgetary Basis)*

*SCHEDULE OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS):*

- *Debt Service Fund*
- *Special Revenue Funds:*
  - *Confiscated Property Fund*
  - *Community and Visitor Facilities Fund*
  - *Hotel Motel Tax Capital Improvement Fund*
  - *Street Maintenance and Improvement Fund*
  - *Parks Development and Expansion Fund*
  - *Stormwater Operations Fund*
  - *Emergency Medical Services Fund*
  - *Capital Improvement Reserve Fund*
  - *Public Health Support Revenue Fund*
  - *Job Training, Neighborhood Revitalization, and Economic Development Fund*
  - *Golf Course Fund*
  - *Advanced Transportation District Fund*
  - *Development and Planning Services*
  - *International Center Fund*
  - *Community Service Funds:*
    - *Animal Care Services Fund*
    - *Better Jobs*
    - *Child Safety Fund*
    - *Municipal Courts Security Fund*
    - *Municipal Court Technology Fund*
    - *Official City Store Fund*
    - *Recreation Athletic Fund*
    - *South Texas Business Fund*
    - *Starbright Industrial Development Corporation Fund*
    - *Tax Increment Financing Fund*
    - *Tree Preservation Fund*
- *Permanent Fund:*
  - *San Jose Burial Park Fund*
- *Discretely Presented Component Unit:*
  - *Westside Development Corporation*

## Budgetary Comparison Schedule
## General Fund
### Year Ended September 30, 2007

| | 2007 | | | |
|---|---|---|---|---|
| | BUDGETED AMOUNTS | | BUDGETARY BASIS | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
| | ORIGINAL | FINAL | ACTUAL | |
| **Resources (Inflows):** | | | | |
| Taxes | $ 418,050,765 | $ 416,959,542 | $ 430,451,032 | $ 13,491,490 |
| Licenses and Permits | 6,261,555 | 5,728,475 | 6,926,703 | 1,198,228 |
| Intergovernmental | 3,382,826 | 3,382,826 | 4,035,641 | 652,815 |
| Revenues from Utilities | 235,554,797 | 235,554,797 | 257,687,224 | 22,132,427 |
| Charges for Services | 27,609,107 | 27,426,077 | 25,220,809 | (2,205,268) |
| Fines and Forfeits | 11,665,925 | 11,670,405 | 15,114,609 | 3,444,204 |
| Interest Earned | 4,629,076 | 3,888,420 | 6,815,240 | 2,926,820 |
| Miscellaneous | 9,003,157 | 11,552,901 | 7,491,413 | (4,061,488) |
| Transfers from Other Funds | 22,883,253 | 15,910,946 | 15,972,026 | 61,080 |
| **Amounts Available for Appropriation** | 739,040,461 | 732,074,389 | 769,714,697 | 37,640,308 |
| **Charges to Appropriations (Outflows):** | | | | |
| General Government | 115,017,391 | 101,701,604 | 79,705,071 | 21,996,533 |
| Public Safety | 414,493,597 | 435,027,664 | 437,206,950 | (2,179,286) |
| Public Works | 11,028,164 | 11,028,194 | 10,759,958 | 268,236 |
| Health Services | 12,637,355 | 13,215,402 | 13,109,799 | 105,603 |
| Sanitation | 3,274,029 | 3,281,143 | 3,007,740 | 273,403 |
| Welfare | 36,918,498 | 42,632,219 | 42,124,122 | 508,097 |
| Culture and Recreation | 70,607,424 | 71,224,963 | 69,728,940 | 1,496,023 |
| Economic Development and Opportunity | 2,846,309 | 3,116,916 | 3,505,293 | (388,377) |
| Transfers to Other Funds | 122,845,796 | 124,632,509 | 126,065,404 | (1,432,895) |
| **Total Charges to Appropriations** | 789,668,563 | 805,860,614 | 785,213,277 | 20,647,337 |
| Excess (Deficiency) of Resources Over (Under) Charges to Appropriations | (50,628,102) | (73,786,225) | (15,498,580) | 58,287,645 |
| Fund Balance Allocation | 50,628,102 | 73,786,225 | 15,498,580 | (58,287,645) |
| **Excess (Deficiency) of Resources Over (Under) Charges to Appropriations** | $ - | $ - | $ - | $ - |

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

| | |
|---|---|
| **Sources/Inflows of Resources:** | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | $ 769,714,697 |
| Differences - budget to GAAP: | |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (15,972,026) |
| **Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds** | $ 753,742,671 |
| **Uses/Outflows of Resources:** | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | $ 785,213,277 |
| Differences - budget to GAAP: | |
| Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes | (11,268,147) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (126,065,404) |
| **Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds** | $ 647,879,726 |

**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 Safety, Economic Development and Opportunity and Transfers to Other Funds functions. However, as sufficient actual revenues or fund balance covered individual functional excesses they were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

## Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes | $ 416,959,542 | $ 430,451,032 | $ 13,491,490 |
| Licenses and Permits | 5,728,475 | 6,926,703 | 1,198,228 |
| Intergovernmental | 3,382,826 | 4,035,641 | 652,815 |
| Revenues from Utilities | 235,554,797 | 257,687,224 | 22,132,427 |
| Charges for Services | 27,426,077 | 25,220,809 | (2,205,268) |
| Fines and Forfeits | 11,670,405 | 15,114,609 | 3,444,204 |
| Interest Earned | 3,888,420 | 6,815,240 | 2,926,820 |
| Miscellaneous | 11,552,901 | 7,491,413 | (4,061,488) |
| **Total Revenues** | 716,163,443 | 753,742,671 | 37,579,228 |
| **Expenditures:** | | | |
| General Government | 101,701,604 | 79,705,071 | 21,996,533 |
| Public Safety | 435,027,664 | 437,206,950 | (2,179,286) |
| Public Works | 11,028,194 | 10,759,958 | 268,236 |
| Health Services | 13,215,402 | 13,109,799 | 105,603 |
| Sanitation | 3,281,143 | 3,007,740 | 273,403 |
| Welfare | 42,632,219 | 42,124,122 | 508,097 |
| Culture and Recreation | 71,224,963 | 69,728,940 | 1,496,023 |
| Economic Development and Opportunity | 3,116,916 | 3,505,293 | (388,377) |
| **Total Expenditures** | 681,228,105 | 659,147,873 | 22,080,232 |
| **Excess of Revenues Over Expenditures** | 34,935,338 | 94,594,798 | 59,659,460 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 15,910,946 | 15,972,026 | 61,080 |
| Transfers Out | (124,632,509) | (126,065,404) | (1,432,895) |
| **Total Other Financing Sources (Uses)** | (108,721,563) | (110,093,378) | (1,371,815) |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (73,786,225) | (15,498,580) | $ 58,287,645 |
| Fund Balances, October 1 | 161,476,026 | 161,476,026 | |
| Add Encumbrances | | 13,713,122 | |
| **Fund Balances, September 30** | $ 87,689,801 | $ 159,690,568 | |

## Schedule of Revenues Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| **Taxes:** | | | |
| Property: | | | |
| Current | $ 200,514,728 | $ 202,679,492 | $ 2,164,764 |
| Delinquent | 2,736,425 | 196,952 | (2,539,473) |
| General Sales and Use: | | | |
| City Sales | 180,804,665 | 189,752,760 | 8,948,095 |
| Selective Sales and Use: | | | |
| Alcoholic Beverages | 5,168,023 | 5,307,873 | 139,850 |
| Gross Receipts Business: | | | |
| Taxicabs | 308,199 | 318,508 | 10,309 |
| Telecommunication Access Lines Fees | 13,881,845 | 17,980,100 | 4,098,255 |
| Cablevision Franchise | 10,969,900 | 11,106,898 | 136,998 |
| Bingo | 260,000 | 660,042 | 400,042 |
| Other | 331,719 | 170,797 | (160,922) |
| Penalties and Interest on Delinquent Taxes | 1,984,038 | 2,277,610 | 293,572 |
| **Total Taxes** | 416,959,542 | 430,451,032 | 13,491,490 |
| **Licenses and Permits:** | | | |
| Alcoholic Beverages Licenses | 394,980 | 401,903 | 6,923 |
| Health Licenses | 2,837,260 | 2,816,836 | (20,424) |
| Amusement Licenses | 183,703 | 147,660 | (36,043) |
| Professional and Occupational Licenses | 1,503,537 | 1,094,237 | (409,300) |
| Animal Licenses | 8,160 | 8,940 | 780 |
| Street Permits | 800,835 | 2,457,127 | 1,656,292 |
| **Total Licenses and Permits** | 5,728,475 | 6,926,703 | 1,198,228 |
| **Intergovernmental:** | | | |
| Library Aid from Bexar County | 2,903,632 | 3,494,199 | 590,567 |
| Park Reservation Services | 32,846 | 54,334 | 21,488 |
| Health Aid from Bexar County | 396,348 | 455,357 | 59,009 |
| Hotel/Motel Tax Collection Fee | 50,000 | 31,751 | (18,249) |
| **Total Intergovernmental** | 3,382,826 | 4,035,641 | 652,815 |
| **Revenues from Utilities:** | | | |
| CPS Energy | 227,039,000 | 248,539,890 | 21,500,890 |
| San Antonio Water System | 8,515,797 | 9,147,334 | 631,537 |
| **Total Revenues from Utilities** | 235,554,797 | 257,687,224 | 22,132,427 |

(Continued)

## Schedule of Revenues Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Charges for Services:** | | | |
| General Government | $ 3,928,563 | $ 3,299,413 | $ (629,150) |
| Public Safety: | | | |
| Police Department | 9,131,651 | 7,879,986 | (1,251,665) |
| Fire Department | 779,631 | 762,476 | (17,155) |
| Highway and Streets: | | | |
| Barricade Fees | 1,261,545 | | (1,261,545) |
| Sanitation | 314,716 | 259,136 | (55,580) |
| Health | 3,386,907 | 3,371,363 | (15,544) |
| Culture and Recreation: | | | |
| Tower of the Americas | 834,375 | 1,077,217 | 242,842 |
| La Villita | 319,876 | 234,687 | (85,189) |
| Recreation Fees | 405,400 | 434,155 | 28,755 |
| Concessions in Other Parks | 92,600 | 308,903 | 216,303 |
| River Boats | 4,311,342 | 4,760,595 | 449,253 |
| Governor's Palace | 37,270 | 29,496 | (7,774) |
| Swimming Pools | 67,075 | 65,940 | (1,135) |
| Community Centers | 364,988 | 366,645 | 1,657 |
| Library | 892,854 | 984,898 | 92,044 |
| Market Square - Markets and Warehouses | 1,118,254 | 1,139,922 | 21,668 |
| Cemeteries | 179,030 | 245,977 | 66,947 |
| **Total Charges for Services** | 27,426,077 | 25,220,809 | (2,205,268) |
| **Fines and Forfeits:** | | | |
| Municipal Court Fines | 11,670,405 | 15,114,609 | 3,444,204 |
| **Interest Earned:** | | | |
| Interest Earned | 3,888,420 | 6,815,240 | 2,926,820 |
| **Miscellaneous:** | | | |
| Sales | 3,007,820 | 3,592,839 | 585,019 |
| Recovery of Expenditures | 1,238,318 | 957,221 | (281,097) |
| Annexation | 1,089,723 | | (1,089,723) |
| Interfund Charges | 4,332,769 | 1,320,404 | (3,012,365) |
| Rents, Leases, and Concessions | 954,239 | 932,027 | (22,212) |
| Other | 930,032 | 688,922 | (241,110) |
| **Total Miscellaneous** | 11,552,901 | 7,491,413 | (4,061,488) |
| **Total Revenues** | $ 716,163,443 | $ 753,742,671 | $ 37,579,228 |

(End of Statement)

## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Expenditures:** | | | |
| **General Government:** | | | |
| **Legislative:** | | | |
| Personal Services | $ 6,310,127 | $ 5,894,998 | $ 415,129 |
| Contractual Services | 2,806,728 | 2,158,089 | 648,639 |
| Commodities | 552,996 | 253,102 | 299,894 |
| Other Expenditures | 3,138,572 | 2,418,991 | 719,581 |
| **Total Legislative** | 12,808,423 | 10,725,180 | 2,083,243 |
| **Judicial:** | | | |
| Personal Services | 10,052,901 | 9,789,195 | 263,706 |
| Contractual Services | 911,387 | 918,093 | (6,706) |
| Commodities | 182,461 | 249,963 | (67,502) |
| Other Expenditures | 2,230,885 | 2,179,017 | 51,868 |
| Capital Outlay | | 195,660 | (195,660) |
| **Total Judicial** | 13,377,634 | 13,331,928 | 45,706 |
| **Executive:** | | | |
| Personal Services | 40,768,528 | 25,942,870 | 14,825,658 |
| Contractual Services | 20,061,893 | 18,594,103 | 1,467,790 |
| Commodities | 3,892,375 | 1,796,985 | 2,095,390 |
| Other Expenditures | 10,792,751 | 8,824,218 | 1,968,533 |
| Capital Outlay | | 489,787 | (489,787) |
| **Total Executive** | 75,515,547 | 55,647,963 | 19,867,584 |
| **Total General Government** | 101,701,604 | 79,705,071 | 21,996,533 |
| **Public Safety:** | | | |
| **Police:** | | | |
| Personal Services | 211,414,421 | 213,993,541 | (2,579,120) |
| Contractual Services | 4,688,611 | 5,890,382 | (1,201,771) |
| Commodities | 953,455 | 768,208 | 185,247 |
| Other Expenditures | 13,561,608 | 13,343,142 | 218,466 |
| Capital Outlay | | 89,748 | (89,748) |
| **Total Police** | 230,618,095 | 234,085,021 | (3,466,926) |
| **Fire:** | | | |
| Personal Services | 104,478,754 | 109,761,979 | (5,283,225) |
| Contractual Services | 2,146,246 | 1,638,415 | 507,831 |
| Commodities | 2,151,792 | 2,205,554 | (53,762) |
| Other Expenditures | 10,675,394 | 10,611,747 | 63,647 |
| Capital Outlay | | 157,571 | (157,571) |
| **Total Fire** | 119,452,186 | 124,375,266 | (4,923,080) |

(Continued)

## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Public Safety (Continued):** | | | |
| **Building Inspection and Regulations:** | | | |
| Personal Services | $ 231,821 | $ 237,236 | $ (5,415) |
| Contractual Services | 6,861 | 10,659 | (3,798) |
| Commodities | 2,783 | 3,432 | (649) |
| Other Expenditures | 10,828 | 8,584 | 2,244 |
| **Total Building Inspection and Regulations** | 252,293 | 259,911 | (7,618) |
| **Administration:** | | | |
| Personal Services | 22,340,757 | 14,759,103 | 7,581,654 |
| Contractual Services | 1,720,126 | 1,825,602 | (105,476) |
| Commodities | 1,245,737 | 1,460,687 | (214,950) |
| Other Expenditures | 11,113,279 | 10,736,257 | 377,022 |
| Capital Outlay | | 26,159 | (26,159) |
| **Total Administration** | 36,419,899 | 28,807,808 | 7,612,091 |
| **Other Protection:** | | | |
| Personal Services | 27,146,314 | 29,508,623 | (2,362,309) |
| Contractual Services | 4,308,345 | 4,516,256 | (207,911) |
| Commodities | 3,076,750 | 2,887,216 | 189,534 |
| Other Expenditures | 12,944,512 | 11,861,925 | 1,082,587 |
| Capital Outlay | 809,270 | 904,924 | (95,654) |
| **Total Other Protection** | 48,285,191 | 49,678,944 | (1,393,753) |
| **Total Public Safety** | 435,027,664 | 437,206,950 | (2,179,286) |
| **Public Works:** | | | |
| **Streets:** | | | |
| Personal Services | 296,180 | 326,498 | (30,318) |
| Contractual Services | 6,416 | 31,246 | (24,830) |
| Commodities | 2,574 | 4,551 | (1,977) |
| Other Expenditures | 20,786 | 21,751 | (965) |
| **Total Streets** | 325,956 | 384,046 | (58,090) |
| **Lighting:** | | | |
| Contractual Services | 89,838 | | 89,838 |
| Commodities | 10,612,400 | 10,375,912 | 236,488 |
| **Total Lighting** | 10,702,238 | 10,375,912 | 326,326 |
| **Total Public Works** | 11,028,194 | 10,759,958 | 268,236 |
| **Health Services:** | | | |
| Personal Services | 9,521,245 | 9,420,106 | 101,139 |
| Contractual Services | 1,160,533 | 1,320,736 | (160,203) |
| Commodities | 525,089 | 543,744 | (18,655) |
| Other Expenditures | 1,988,535 | 1,805,213 | 183,322 |
| Capital Outlay | 20,000 | 20,000 | |
| **Total Health Services** | 13,215,402 | 13,109,799 | 105,603 |

(Continued)

## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Sanitation:** | | | |
| Personal Services | $ 2,433,695 | $ 2,336,794 | $ 96,901 |
| Contractual Services | 75,827 | 158,174 | (82,347) |
| Commodities | 468,462 | 254,928 | 213,534 |
| Other Expenditures | 303,159 | 257,844 | 45,315 |
| **Total Sanitation** | 3,281,143 | 3,007,740 | 273,403 |
| **Welfare:** | | | |
| Personal Services | 15,654,503 | 15,171,263 | 483,240 |
| Contractual Services | 12,665,043 | 19,611,228 | (6,946,185) |
| Commodities | 883,093 | 831,918 | 51,175 |
| Other Expenditures | 13,429,580 | 6,374,490 | 7,055,090 |
| Capital Outlay | | 135,223 | (135,223) |
| **Total Welfare** | 42,632,219 | 42,124,122 | 508,097 |
| **Culture and Recreation:** | | | |
| **Libraries:** | | | |
| Personal Services | 17,222,840 | 17,018,231 | 204,609 |
| Contractual Services | 1,475,215 | 1,426,086 | 49,129 |
| Commodities | 3,437,853 | 3,387,025 | 50,828 |
| Other Expenditures | 2,924,609 | 2,391,558 | 533,051 |
| **Total Libraries** | 25,060,517 | 24,222,900 | 837,617 |
| **Parks:** | | | |
| Personal Services | 27,066,427 | 27,250,987 | (184,560) |
| Contractual Services | 5,932,387 | 6,080,830 | (148,443) |
| Commodities | 3,468,897 | 3,402,808 | 66,089 |
| Other Expenditures | 9,652,393 | 8,437,347 | 1,215,046 |
| Capital Outlay | 44,342 | 334,068 | (289,726) |
| **Total Parks** | 46,164,446 | 45,506,040 | 658,406 |
| **Total Culture and Recreation** | 71,224,963 | 69,728,940 | 1,496,023 |
| **Economic Development:** | | | |
| Personal Services | 2,289,871 | 2,363,335 | (73,464) |
| Contractual Services | 592,821 | 390,983 | 201,838 |
| Commodities | 32,333 | 54,303 | (21,970) |
| Other Expenditures | 201,891 | 696,672 | (494,781) |
| **Total Economic Development** | 3,116,916 | 3,505,293 | (388,377) |
| **Total Expenditures** | $ 681,228,105 | $ 659,147,873 | $ 22,080,232 |

(End of Statement)

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Debt Service Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes: | | | |
| Current | $ 115,485,274 | $ 116,663,904 | $ 1,178,630 |
| Delinquent | 1,576,814 | 1,449,232 | (127,582) |
| Penalties and Interests on Delinquent Taxes | 1,143,265 | 1,312,431 | 169,166 |
| Miscellaneous: | | | |
| Interest Revenue | 7,508,185 | 7,899,806 | 391,621 |
| **Total Revenues** | 125,713,538 | 127,325,373 | 1,611,835 |
| **Expenditures:** | | | |
| Fees to Professionals | | 402,962 | (402,962) |
| Principal Retirement | 80,215,000 | 80,215,000 | |
| Interest | 57,439,003 | 57,189,652 | 249,351 |
| Issuance Costs | 8,199 | 2,451,312 | (2,443,113) |
| **Total Expenditures** | 137,662,202 | 140,258,926 | (2,596,724) |
| **(Deficiency) of Revenues (Under) Expenditures** | (11,948,664) | (12,933,553) | (984,889) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 20,373,883 | 20,372,312 | (1,571) |
| Long-Term Debt Issued | | 205,395,000 | 205,395,000 |
| Premium on Long-Term Debt | | 7,673,379 | 7,673,379 |
| Payment to Refunded Bond Escrow Agent | | (210,643,522) | (210,643,522) |
| **Total Other Financing Sources** | 20,373,883 | 22,797,169 | $ 2,423,286 |
| **Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)** | 8,425,219 | 9,863,616 | |
| Fund Balances, October 1 | 92,442,902 | 92,442,902 | |
| **Fund Balances, September 30** | $ 100,868,121 | $ 102,306,518 | |

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Confiscated Property Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous: | | | |
| Interest | $ 212,100 | $ 105,528 | $ (106,572) |
| Other | 1,494,160 | 843,018 | (651,142) |
| **Total Revenues** | 1,706,260 | 948,546 | (757,714) |
| **Expenditures:** | | | |
| Public Safety: | | | |
| Office of the Chief of Police: | | | |
| Personal Services | 416,648 | 155,401 | 261,247 |
| Contractual Services | 666,028 | 406,487 | 259,541 |
| Commodities | 485,740 | 378,638 | 107,102 |
| Other Expenditures | 322,600 | 217,796 | 104,804 |
| Capital Outlay | 53,275 | 116,801 | (63,526) |
| **Total Expenditures** | 1,944,291 | 1,275,123 | 669,168 |
| **(Deficiency) of Revenues (Under) Expenditures** | (238,031) | (326,577) | (88,546) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (11,556) | (11,556) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (249,587) | (338,133) | $ (88,546) |
| Fund Balances, October 1 | 2,343,800 | 2,343,800 | |
| Add Encumbrances | | 94,736 | |
| **Fund Balances, September 30** | $ 2,094,213 | $ 2,100,403 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community and Visitor Facilities Fund
### Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes: | | | |
| Hotel Occupancy | $ 47,137,800 | $ 49,710,736 | $ 2,572,936 |
| Penalties and Interest on Delinquent Taxes | | 86,076 | 86,076 |
| Charges for Services | 12,962,729 | 16,934,718 | 3,971,989 |
| Miscellaneous: | | | |
| Interest | 525,560 | 1,779,390 | 1,253,830 |
| Recovery of Expenditures | 125,000 | 185,131 | 60,131 |
| Other | 1,149,069 | 1,090,025 | (59,044) |
| **Total Revenues** | 61,900,158 | 69,786,076 | 7,885,918 |
| **Expenditures:** | | | |
| Convention and Tourism: | | | |
| International Affairs: | | | |
| Personal Services | 506,901 | 453,676 | 53,225 |
| Contractual Services | 429,474 | 445,650 | (16,176) |
| Commodities | 51,093 | 51,953 | (860) |
| Other Expenditures | 87,350 | 71,692 | 15,658 |
| Total International Affairs | 1,074,818 | 1,022,971 | 51,847 |
| Arts and Cultural Affairs: | | | |
| Personal Services | 702,634 | 683,184 | 19,450 |
| Contractual Services | 1,106,180 | 1,087,902 | 18,278 |
| Commodities | 12,659 | 9,541 | 3,118 |
| Other Expenditures | 33,058 | 33,917 | (859) |
| Total Arts and Cultural Affairs | 1,854,531 | 1,814,544 | 39,987 |
| Convention Facilities: | | | |
| Personal Services | 14,431,472 | 14,295,547 | 135,925 |
| Contractual Services | 3,559,174 | 3,656,593 | (97,419) |
| Commodities | 1,143,174 | 1,256,702 | (113,528) |
| Other Expenditures | 10,901,205 | 10,720,544 | 180,661 |
| Capital Outlay | | 56,156 | (56,156) |
| Total Convention Facilities | 30,035,025 | 29,985,542 | 49,483 |
| Convention and Visitors Bureau: | | | |
| Personal Services | 5,214,957 | 5,097,171 | 117,786 |
| Contractual Services | 10,549,680 | 10,537,758 | 11,922 |
| Commodities | 200,612 | 186,775 | 13,837 |
| Other Expenditures | 564,701 | 534,612 | 30,089 |
| Capital Outlay | | 135,406 | (135,406) |
| Total Convention and Visitors Bureau | 16,529,950 | 16,491,722 | 38,228 |
| Nondepartmental: | | | |
| Personal Services | 340,919 | 297,984 | 42,935 |
| Contractual Services | 976,286 | 836,270 | 140,016 |
| Commodities | 233,138 | 58,960 | 174,178 |
| Other Expenditures | 25,243 | 26,112 | (869) |
| Total Nondepartmental | 1,575,586 | 1,219,326 | 356,260 |
| Contributions to Other Agencies | 6,969,994 | 6,978,794 | (8,800) |
| **Total Expenditures** | 58,039,904 | 57,512,899 | 527,005 |
| ~~Excess of Revenues Over Expenditures~~ | 3,860,254 | 12,273,177 | 8,412,923 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 498,978 | 498,978 | |
| Transfers Out | (13,581,138) | (9,413,281) | 4,167,857 |
| **Total Other Financing Sources (Uses)** | (13,082,160) | (8,914,303) | 4,167,857 |
| **Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)** | (9,221,906) | 3,358,874 | $ 12,580,780 |
| Fund Balances, October 1 | 16,116,224 | 16,116,224 | |
| Add Encumbrances | | 1,338,417 | |
| Fund Balances, September 30 | $ 6,894,318 | $ 20,813,515 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Hotel Motel Tax Capital Improvement Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes | $ 13,467,900 | $ 14,181,798 | $ 713,898 |
| Penalties and Interest on Delinquent Taxes | 34,631 | 24,586 | (10,045) |
| Miscellaneous: | | | |
| Interest | 27,860 | 173,208 | 145,348 |
| **Total Revenues** | 13,530,391 | 14,379,592 | 849,201 |
| **Expenditures:** | | | |
| Convention and Tourism: | | | |
| Other Expenditures | | 3,000,000 | (3,000,000) |
| **Excess of Revenues Over Expenditures** | 13,530,391 | 11,379,592 | (2,150,799) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (11,480,489) | (9,590,789) | 1,889,700 |
| **Excess of Revenues Over Expenditures and Other Financing (Uses)** | 2,049,902 | 1,788,803 | $ (261,099) |
| Fund Balances, October 1 | 4,323,093 | 4,323,093 | |
| Add Encumbrances | | 113,435 | |
| **Fund Balances, September 30** | $ 6,372,995 | $ 6,225,331 | |

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Street Maintenance and Improvement Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Intergovernmental | $ 278,240 | $ 722,074 | $ 443,834 |
| Charges for Services | 2,496,575 | 1,082,890 | (1,413,685) |
| Miscellaneous: | | | |
| Interest | 111,500 | 1,204,871 | 1,093,371 |
| Recovery of Expenditures | | 3,310,717 | 3,310,717 |
| **Total Revenues** | 2,886,315 | 6,320,552 | 3,434,237 |
| **Expenditures:** | | | |
| Streets and Roadways: | | | |
| Area Supervision: | | | |
| Personal Services | 2,392,749 | 2,158,640 | 234,109 |
| Contractual Services | 21,665,407 | 19,591,421 | 2,073,986 |
| Commodities | 125,961 | 1,936,303 | (1,810,342) |
| Other Expenditures | 1,343,531 | 1,435,233 | (91,702) |
| Capital Outlay | | 11,850 | (11,850) |
| Total Area Supervision | 25,527,648 | 25,133,447 | 394,201 |
| Gravel and Asphalt Maintenance: | | | |
| Personal Services | 8,553,178 | 8,489,583 | 63,595 |
| Contractual Services | 1,303,025 | 1,547,165 | (244,140) |
| Commodities | 5,670,637 | 5,145,364 | 525,273 |
| Other Expenditures | 4,646,419 | 3,986,727 | 659,692 |
| Total Gravel and Asphalt Maintenance | 20,173,259 | 19,168,839 | 1,004,420 |
| Maintenance and Construction: | | | |
| Personal Services | 3,058,518 | 2,513,506 | 545,012 |
| Contractual Services | 22,624,186 | 16,432,605 | 6,191,581 |
| Commodities | 5,136,678 | 1,609,888 | 3,526,790 |
| Other Expenditures | 1,120,449 | 824,485 | 295,964 |
| Capital Outlay | | 10,260 | (10,260) |
| Total Maintenance and Construction | 31,939,831 | 21,390,744 | 10,549,087 |
| **Total Expenditures** | 77,640,738 | 65,693,030 | 11,947,708 |
| **(Deficiency) of Revenues (Under) Expenditures** | (74,754,423) | (59,372,478) | 15,381,945 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 62,820,494 | 61,735,471 | (1,085,023) |
| Transfers Out | (2,278,844) | (1,704,743) | 574,101 |
| **Total Other Financing Sources (Uses)** | 60,541,650 | 60,030,728 | (510,922) |
| **Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)** | (14,212,773) | 658,250 | $ 14,871,023 |
| Fund Balances, October 1 | 5,701,917 | 5,701,917 | |
| Add Encumbrances | | 15,580,307 | |
| **Fund Balances, September 30** | $ (8,510,856) | $ 21,940,474 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Parks Development and Expansion Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes | $ 29,249,038 | $ 23,719,249 | $ (5,529,789) |
| Miscellaneous: | | | |
| Recovery of Expenditures | | 858,292 | 858,292 |
| Interest | 185,195 | 2,232,673 | 2,047,478 |
| **Total Revenues** | 29,434,233 | 26,810,214 | (2,624,019) |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Contractual Services | 1,090,442 | 558,799 | 531,643 |
| Commodities | | 4,290 | (4,290) |
| Other Expenditures | 8,125 | 42,146 | (34,021) |
| **Total Expenditures** | 1,098,567 | 605,235 | 493,332 |
| **Excess of Revenues Over Expenditures** | 28,335,666 | 26,204,979 | (2,130,687) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | | 12,078 | 12,078 |
| Transfers Out | (85,729,160) | (29,693,836) | 56,035,324 |
| **Total Other Financing Sources (Uses)** | (85,729,160) | (29,681,758) | 56,047,402 |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (57,393,494) | (3,476,779) | $ 53,916,715 |
| Fund Balances, October 1 | 41,141,345 | 41,141,345 | |
| Add Encumbrances | | 6,931,149 | |
| **Fund Balances, September 30** | $ (16,252,149) | $ 44,595,715 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Stormwater Operations Fund
### Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services | $ 33,718,790 | $ 35,550,020 | $ 1,831,230 |
| Miscellaneous: | | | |
| Interest | 893,690 | 1,356,217 | 462,527 |
| Recovery of Expenditures | | 234,439 | 234,439 |
| **Total Revenues** | 34,612,480 | 37,140,676 | 2,528,196 |
| **Expenditures:** | | | |
| Public Works: | | | |
| Administration: | | | |
| Personal Services | 2,368,855 | 1,871,745 | 497,110 |
| Contractual Services | 4,227,048 | 4,277,422 | (50,374) |
| Commodities | 151,632 | 160,306 | (8,674) |
| Other Expenditures | 499,461 | 454,900 | 44,561 |
| Capital Outlay | 41,000 | | 41,000 |
| Total Administration | 7,287,996 | 6,764,373 | 523,623 |
| Vegetation Control: | | | |
| Personal Services | 2,607,474 | 2,211,666 | 395,808 |
| Contractual Services | 628,230 | 441,596 | 186,634 |
| Commodities | 295,509 | 338,111 | (42,602) |
| Other Expenditures | 963,622 | 875,962 | 87,660 |
| Total Vegetation Control | 4,494,835 | 3,867,335 | 627,500 |
| River Maintenance: | | | |
| Personal Services | 3,500,347 | 3,543,030 | (42,683) |
| Contractual Services | 1,109,623 | 685,641 | 423,982 |
| Commodities | 358,869 | 413,394 | (54,525) |
| Other Expenditures | 2,394,600 | 2,075,311 | 319,289 |
| Total River Maintenance | 7,363,439 | 6,717,376 | 646,063 |
| Street Sweeping: | | | |
| Personal Services | 2,298,612 | 2,121,594 | 177,018 |
| Contractual Services | 550,688 | 555,730 | (5,042) |
| Commodities | 122,491 | 268,108 | (145,617) |
| Other Expenditures | 1,032,376 | 827,757 | 204,619 |
| Capital Outlay | | 9,225 | (9,225) |
| Total Street Sweeping | 4,004,167 | 3,782,414 | 221,753 |
| Tunnel Maintenance: | | | |
| Personal Services | 1,303,902 | 1,224,016 | 79,886 |
| Contractual Services | 546,528 | 324,351 | 222,177 |
| Commodities | 217,064 | 133,024 | 84,040 |
| Other Expenditures | 424,487 | 313,144 | 111,343 |
| Capital Outlay | | 34,016 | (34,016) |
| Total Tunnel Maintenance | 2,491,981 | 2,028,551 | 463,430 |
| Design Engineering: | | | |
| Personal Services | 580,539 | 624,456 | (43,917) |
| Contractual Services | 73,721 | 64,419 | 9,302 |
| Commodities | 18,743 | 9,386 | 9,357 |
| Other Expenditures | 38,490 | 47,838 | (9,348) |
| Total Design Engineering | 711,493 | 746,099 | (34,606) |
| **Total Expenditures** | 26,353,911 | 23,906,148 | 2,447,763 |
| **Excess of Revenues Over Expenditures** | 8,258,569 | 13,234,528 | 4,975,959 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 24,560 | 24,560 | |
| Transfers Out | (34,744,213) | (19,023,746) | 15,720,467 |
| **Total Other Financing Sources (Uses)** | (34,719,653) | (18,999,186) | 15,720,467 |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (26,461,084) | (5,764,658) | $ 20,696,426 |
| Fund Balances, October 1 | 30,344,607 | 30,344,607 | |
| Add Encumbrances | | 6,124,148 | |
| **Fund Balances, September 30** | $ 3,883,523 | $ 30,704,097 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Emergency Medical Services Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Ambulance Service Fees | $ 14,469,201 | $ 14,664,704 | $ 195,503 |
| Ambulance Contract Fees | 582,929 | 563,251 | (19,678) |
| Miscellaneous: | | | |
| Interest | | 136,778 | 136,778 |
| Recovery of Expenditures | | 3,039 | 3,039 |
| Other | | 751 | 751 |
| **Total Revenues** | 15,052,130 | 15,368,523 | 316,393 |
| **Expenditures:** | | | |
| Health Services: | | | |
| Personal Services | 42,514,990 | 42,366,670 | 148,320 |
| Contractual Services | 3,463,779 | 3,749,888 | (286,109) |
| Commodities | 1,182,015 | 1,337,148 | (155,133) |
| Other Expenditures | 5,162,061 | 4,930,346 | 231,715 |
| Capital Outlay | | 116,209 | (116,209) |
| **Total Expenditures** | 52,322,845 | 52,500,261 | (177,416) |
| **(Deficiency) of Revenues (Under) Expenditures** | (37,270,715) | (37,131,738) | 138,977 |
| **Other Financing Sources:** | | | |
| Transfers In | 37,055,546 | 37,134,841 | 79,295 |
| **Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures** | (215,169) | 3,103 | $ 218,272 |
| Fund Balances, October 1 | 853,836 | 853,836 | |
| Add Encumbrances | | 181,621 | |
| **Fund Balances, September 30** | $ 638,667 | $ 1,038,560 | |

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Capital Improvement Reserve Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous: | | | |
| Interest | $ 172,020 | $ 314,228 | $ 142,208 |
| **Total Revenues** | 172,020 | 314,228 | 142,208 |
| **Expenditures:** | | | |
| General Government: | | | |
| Contractual Services | | 780 | (780) |
| **Total Expenditures** | | 780 | (780) |
| **Excess of Revenues Over Expenditures** | 172,020 | 313,448 | 141,428 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (4,395,028) | (3,355,276) | 1,039,752 |
| **Total Other Financing (Uses)** | (4,395,028) | (3,355,276) | 1,039,752 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (4,223,008) | (3,041,828) | $ 1,181,180 |
| Fund Balances, October 1 | 6,674,596 | 6,674,596 | |
| **Fund Balances, September 30** | $ 2,451,588 | $ 3,632,768 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Public Health Support Revenue Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Intergovernmental | $ 141,997 | $ 149,647 | $ 7,650 |
| Charges for Services | 2,686,065 | 1,732,098 | (953,967) |
| Miscellaneous: | | | |
| Interest | | 944 | 944 |
| Other | | 385 | 385 |
| **Total Revenues** | 2,828,062 | 1,883,074 | (944,988) |
| **Expenditures:** | | | |
| Health Services: | | | |
| Administration: | | | |
| Personal Services | 794,252 | 851,140 | (56,888) |
| Contractual Services | 273,220 | 250,439 | 22,781 |
| Commodities | 896,084 | 863,381 | 32,703 |
| Other Expenditures | 101,206 | 91,460 | 9,746 |
| **Total Expenditures** | 2,064,762 | 2,056,420 | 8,342 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 763,300 | (173,346) | (936,646) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 955,254 | 955,254 | |
| Transfers Out | (279,106) | (250,453) | 28,653 |
| **Total Other Financing Sources (Uses)** | 676,148 | 704,801 | 28,653 |
| **Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)** | 1,439,448 | 531,455 | $ (907,993) |
| Fund Balances, October 1 | 15,712 | 15,712 | |
| Add Encumbrances | | 1,383 | |
| **Fund Balances, September 30** | $ 1,455,160 | $ 548,550 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Job Training, Neighborhood Revitalization, and Economic Development Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous: | | | |
| Interest | $ 153,960 | $ 186,365 | $ 32,405 |
| **Excess of Revenues Over Expenditures** | 153,960 | 186,365 | 32,405 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (1,414,715) | (1,414,715) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (1,260,755) | (1,228,350) | $ 32,405 |
| Fund Balances, October 1 | 3,894,641 | 3,894,641 | |
| Add Encumbrances | | 914,715 | |
| **Fund Balances, September 30** | $ 2,633,886 | $ 3,581,006 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Golf Course Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services | $ 6,604,223 | $ 5,478,903 | $ (1,125,320) |
| Miscellaneous: | | | |
| Interest | | 584 | 584 |
| Recovery of Expenditures | | 21,755 | 21,755 |
| Other | | 405,251 | 405,251 |
| **Total Revenues** | 6,604,223 | 5,906,493 | (697,730) |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 3,553,268 | 3,543,616 | 9,652 |
| Contractual Services | 626,120 | 537,070 | 89,050 |
| Commodities | 651,666 | 877,759 | (226,093) |
| Other Expenditures | 1,737,312 | 1,394,630 | 342,682 |
| **Total Expenditures** | 6,568,366 | 6,353,075 | 215,291 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 35,857 | (446,582) | (482,439) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (2,445) | (2,445) | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | 33,412 | (449,027) | $ (482,439) |
| Fund Balances, October 1 | (876,725) | (876,725) | |
| Add Encumbrances | | 46,261 | |
| **Fund Balances, September 30** | $ (843,313) | $ (1,279,491) | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Advanced Transportation District Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| City Sales Tax | $ 9,802,543 | $ 11,007,798 | $ 1,205,255 |
| Miscellaneous: | | | |
| Interest | | 513,017 | 513,017 |
| **Total Revenues** | 9,802,543 | 11,520,815 | 1,718,272 |
| **Expenditures:** | | | |
| Public Works: | | | |
| Personal Services | 611,206 | 609,641 | 1,565 |
| Contractual Services | 38,158 | 312,065 | (273,907) |
| Commodities | 12,904 | 27,486 | (14,582) |
| Other Expenditures | 30,792 | 80,531 | (49,739) |
| Capital Outlay | 210,336 | 221,139 | (10,803) |
| **Total Expenditures** | 903,396 | 1,250,862 | (347,466) |
| **Excess of Revenues Over Expenditures** | 8,899,147 | 10,269,953 | 1,370,806 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (20,057,243) | (11,203,640) | 8,853,603 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (11,158,096) | (933,687) | $ 10,224,409 |
| Fund Balances, October 1 | 10,695,227 | 10,695,227 | |
| Add Encumbrances | | 4,953,092 | |
| **Fund Balances, September 30** | $ (462,869) | $ 14,714,632 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Development and Planning Services
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services | $ 29,827,907 | $ 24,034,664 | $ (5,793,243) |
| Miscellaneous: | | | |
| Interest | 39,307 | 56,134 | 16,827 |
| Recovery of Expenditures | 68,335 | 256,393 | 188,058 |
| Other | | 29 | 29 |
| **Total Revenues** | 29,935,549 | 24,347,220 | (5,588,329) |
| **Expenditures:** | | | |
| General Government: | | | |
| Development Services: | | | |
| Personal Services | 15,117,875 | 14,849,100 | 268,775 |
| Contractual Services | 1,949,706 | 767,874 | 1,181,832 |
| Commodities | 815,175 | 427,665 | 387,510 |
| Other Expenditures | 2,904,615 | 3,892,443 | (987,828) |
| Capital Outlay | 216,000 | 232,523 | (16,523) |
| Total Development Services | 21,003,371 | 20,169,605 | 833,766 |
| Planning: | | | |
| Personal Services | 2,758,926 | 2,294,473 | 464,453 |
| Contractual Services | 129,353 | 116,745 | 12,608 |
| Commodities | 70,166 | 175,660 | (105,494) |
| Other Expenditures | 591,689 | 479,706 | 111,983 |
| Total Planning | 3,550,134 | 3,066,584 | 483,550 |
| **Total Expenditures** | 24,553,505 | 23,236,189 | 1,317,316 |
| **Excess of Revenues Over Expenditures** | 5,382,044 | 1,111,031 | (4,271,013) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 1,115,348 | 1,115,348 | |
| Transfers Out | (5,330,896) | (5,330,896) | |
| **Total Other Financing Sources (Uses)** | (4,215,548) | (4,215,548) | |
| **Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)** | 1,166,496 | (3,104,517) | $ (4,271,013) |
| Fund Balances, October 1 | | | |
| Add Encumbrances | | 187,048 | |
| **Fund Balances, September 30** | $ 1,166,496 | $ (2,917,469) | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## International Center Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services | $ 1,288,342 | $ 1,200,777 | $ (87,565) |
| Miscellaneous: | | | |
| Interest | 10,470 | 63,797 | 53,327 |
| **Total Revenues** | 1,298,812 | 1,264,574 | (34,238) |
| **Expenditures:** | | | |
| Convention and Tourism: | | | |
| Personal Services | 405,737 | 378,677 | 27,060 |
| Contractual Services | 243,385 | 316,014 | (72,629) |
| Commodities | 32,719 | 63,925 | (31,206) |
| Other Expenditures | 364,121 | 354,231 | 9,890 |
| **Total Expenditures** | 1,045,962 | 1,112,847 | (66,885) |
| **Excess of Revenues Over Expenditures** | 252,850 | 151,727 | (101,123) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (277,648) | (18,497) | 259,151 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | (24,798) | 133,230 | $ 158,028 |
| Fund Balances, October 1 | 1,236,311 | 1,236,311 | |
| Add Encumbrances | | 805 | |
| **Fund Balances, September 30** | $ 1,211,513 | $ 1,370,346 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Animal Care Services Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Animal Control Fees | $ 506,980 | $ 407,723 | $ (99,257) |
| Contribution from Other Agencies | 350,607 | 364,241 | 13,634 |
| Interest | | 24,017 | 24,017 |
| Other | | 1,162 | 1,162 |
| **Total Revenues** | 857,587 | 797,143 | (60,444) |
| **Expenditures:** | | | |
| Health Services: | | | |
| Personal Services | 4,052,010 | 4,067,157 | (15,147) |
| Contractual Services | 474,945 | 535,967 | (61,022) |
| Commodities | 652,643 | 633,448 | 19,195 |
| Other Expenditures | 888,752 | 787,963 | 100,789 |
| Capital Outlay | | 18,450 | (18,450) |
| **Total Expenditures** | 6,068,350 | 6,042,985 | 25,365 |
| **(Deficiency) of Revenues (Under) Expenditures** | (5,210,763) | (5,245,842) | (35,079) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 5,342,666 | 5,322,666 | (20,000) |
| Transfers Out | (182,218) | (182,218) | |
| **Total Other Financing Sources (Uses)** | 5,160,448 | 5,140,448 | (20,000) |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (50,315) | (105,394) | $ (55,079) |
| Fund Balances, October 1 | 161,573 | 161,573 | |
| Add Encumbrances | | 52,703 | |
| **Fund Balances, September 30** | $ 111,258 | $ 108,882 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Better Jobs
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Interest | $ 86,800 | $ 20,517 | $ (66,283) |
| **Total Revenues** | 86,800 | 20,517 | (66,283) |
| **Excess of Revenues Over Expenditures** | 86,800 | 20,517 | (66,283) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (1,500,000) | (1,500,000) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (1,413,200) | (1,479,483) | $ (66,283) |
| Fund Balances, October 1 | 2,027,885 | 2,027,885 | |
| **Fund Balances, September 30** | $ 614,685 | $ 548,402 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Child Safety Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Parking Fines | $ 257,282 | $ 234,240 | $ (23,042) |
| Moving Violations | 208,170 | 176,059 | (32,111) |
| Intergovernmental | 1,488,267 | 1,542,199 | 53,932 |
| Interest on Time Deposits | | (240) | (240) |
| **Total Revenues** | 1,953,719 | 1,952,258 | (1,461) |
| **Expenditures:** | | | |
| Health Services: | | | |
| Personal Services | 1,515,469 | 1,135,056 | 380,413 |
| Contractual Services | 3,467 | 12,823 | (9,356) |
| Commodities | 33,049 | 16,501 | 16,548 |
| Other Expenditures | 423,813 | 573,863 | (150,050) |
| **Total Expenditures** | 1,975,798 | 1,738,243 | 237,555 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (22,079) | 214,015 | 236,094 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (426,600) | (214,015) | 212,585 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (448,679) | | $ 448,679 |
| Fund Balances, October 1 | | | |
| **Fund Balances, September 30** | $ (448,679) | $ - | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Municipal Courts Security Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Building Security | $ 394,358 | $ 367,462 | $ (26,896) |
| Interest | | 1,972 | 1,972 |
| **Total Revenues** | 394,358 | 369,434 | (24,924) |
| **Expenditures:** | | | |
| General Government: | | | |
| Contractual Services | 390,356 | 319,315 | 71,041 |
| **Total Expenditures** | 390,356 | 319,315 | 71,041 |
| **Excess of Revenues Over Expenditures** | 4,002 | 50,119 | $ 46,117 |
| Fund Balances, October 1 | (14,990) | (14,990) | |
| **Fund Balances, September 30** | $ (10,988) | $ 35,129 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Municipal Court Technology Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Technology Improvements | $ 521,350 | $ 488,771 | $ (32,579) |
| Interest | | 14,304 | 14,304 |
| **Total Revenues** | 521,350 | 503,075 | (18,275) |
| **Expenditures:** | | | |
| General Government: | | | |
| Personal Services | 73,573 | 46,032 | 27,541 |
| Contractual Services | 310,969 | 3,870 | 307,099 |
| Commodities | | 40,663 | (40,663) |
| Other Expenditures | 636 | 202 | 434 |
| **Total Expenditures** | 385,178 | 90,767 | 294,411 |
| **Excess of Revenues Over Expenditures** | 136,172 | 412,308 | 276,136 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (195) | (195) | |
| **Excess of Revenues Over Expenditures and Other Financing (Uses)** | 135,977 | 412,113 | $ 276,136 |
| Fund Balances, October 1 | 108,533 | 108,533 | |
| **Fund Balances, September 30** | $ 244,510 | $ 520,646 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Official City Store Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous: | | | |
| Interest | $ - | $ 4,242 | $ 4,242 |
| Charges for Services: | | | |
| Sales | 321,700 | 343,578 | 21,878 |
| **Total Revenues** | 321,700 | 347,820 | 26,120 |
| **Expenditures:** | | | |
| Economic Development and Opportunity: | | | |
| Personal Services | 235,569 | 213,265 | 22,304 |
| Contractual Services | 55,898 | 30,408 | 25,490 |
| Commodities | 196,305 | 205,243 | (8,938) |
| Other Expenditures | 31,016 | 31,771 | (755) |
| **Total Expenditures** | 518,788 | 480,687 | 38,101 |
| **(Deficiency) of Revenues (Under) Expenditures** | (197,088) | (132,867) | 64,221 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 150,000 | 150,000 | |
| Transfers Out | (1,300) | (1,300) | |
| **Total Other Financing Sources (Uses)** | 148,700 | 148,700 | |
| **Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)** | (48,388) | 15,833 | $ 64,221 |
| Fund Balances, October 1 | 77,142 | 77,142 | |
| **Fund Balances, September 30** | $ 28,754 | $ 92,975 | |

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Recreation Athletic Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Entry Fees | $ 485,195 | $ 424,424 | $ (60,771) |
| Interest | 7,660 | (20) | (7,680) |
| Other | 7,800 | | (7,800) |
| **Total Revenues** | 500,655 | 424,404 | (76,251) |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 230,116 | 209,314 | 20,802 |
| Contractual Services | 202,250 | 208,219 | (5,969) |
| Commodities | 38,140 | 38,046 | 94 |
| Other Expenditures | 13,001 | 13,145 | (144) |
| **Total Expenditures** | 483,507 | 468,724 | 14,783 |
| **(Deficiency) of Revenues (Under) Expenditures** | 17,148 | (44,320) | (61,468) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (56,160) | (56,160) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (39,012) | (100,480) | $ (61,468) |
| Fund Balances, October 1 | 36,980 | 36,980 | |
| **Fund Balances, September 30** | $ (2,032) | $ (63,500) | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - South Texas Business Fund
### Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Contributions from Other Agencies (SALDC) | $ 601,211 | $ 805,395 | $ 204,184 |
| **Total Revenues** | 601,211 | 805,395 | 204,184 |
| **Expenditures:** | | | |
| Economic Development and Opportunity: | | | |
| Personal Services | 559,469 | 628,961 | (69,492) |
| Contractual Services | 23,118 | 14,315 | 8,803 |
| Commodities | 6,372 | 18,954 | (12,582) |
| Other Expenditures | 25,569 | 26,300 | (731) |
| **Total Expenditures** | 614,528 | 688,530 | (74,002) |
| **(Deficiency) of Revenues (Under) Expenditures** | (13,317) | 116,865 | 130,182 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (1,561) | (1,561) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (14,878) | 115,304 | $ 130,182 |
| Fund Balances, October 1 | (41,190) | (41,190) | |
| **Fund Balances, September 30** | $ (56,068) | $ 74,114 | |

This fund is separate and distinct from the blended component unit.

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Starbright Industrial Development Corporation Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Interest | $ - | $ 6,145 | $ 6,145 |
| **Total Revenues** | | 6,145 | 6,145 |
| **Expenditures:** | | | |
| Economic Development and Opportunity: | | | |
| Other Expenditures | 1,662,867 | 1,633,405 | 29,462 |
| **Total Expenditures** | 1,662,867 | 1,633,405 | 29,462 |
| **(Deficiency) of Revenues (Under) Expenditures** | (1,662,867) | (1,627,260) | 35,607 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 1,662,867 | 1,662,867 | |
| Transfers Out | (465,933) | | 465,933 |
| **Total Other Financing Sources (Uses)** | 1,196,934 | 1,662,867 | 465,933 |
| **Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)** | (465,933) | 35,607 | $ 501,540 |
| Fund Balances, October 1 | 44,914 | 44,914 | |
| **Fund Balances, September 30** | $ (421,019) | $ 80,521 | |

In fiscal year 2005-2006, the Starbright Industrial Development Corporation Fund was established to account for the proceeds from CPS Energy to be used to repay the debt service associated with the Toyota plant land purchase. This fund is separate and distinct from the blended component unit.

# Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Tax Increment Financing Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Administrative Fee | $ 474,971 | $ 223,206 | $ (251,765) |
| Processing Fee | 56,000 | | (56,000) |
| **Total Revenues** | 530,971 | 223,206 | (307,765) |
| **Expenditures:** | | | |
| General Government: | | | |
| Personal Services | 288,424 | 258,273 | 30,151 |
| Contractual Services | 7,991 | 3,372 | 4,619 |
| Commodities | 6,953 | 1,895 | 5,058 |
| Other Expenditures | 38,363 | 20,918 | 17,445 |
| **Total Expenditures** | 341,731 | 284,458 | 57,273 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 189,240 | (61,252) | (250,492) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (1,561) | (11,882) | (10,321) |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | 187,679 | (73,134) | $ (260,813) |
| Fund Balances, October 1 | (30,611) | (30,611) | |
| **Fund Balances, September 30** | $ 157,068 | $ (103,745) | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Tree Preservation Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Tree Mitigation Fee | $ 532,455 | $ 951,985 | $ 419,530 |
| Interest | 42,530 | 97,284 | 54,754 |
| Other | | 974 | 974 |
| **Total Revenues** | 574,985 | 1,050,243 | 475,258 |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 97,715 | 73,746 | 23,969 |
| Contractual Services | 462,723 | 174,261 | 288,462 |
| Commodities | 291,220 | 211,779 | 79,441 |
| Other Expenditures | 22,260 | 3,014 | 19,246 |
| Capital Outlay | 32,000 | 32,015 | (15) |
| **Total Expenditures** | 905,918 | 494,815 | 411,103 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (330,933) | 555,428 | $ 886,361 |
| Fund Balances, October 1 | 1,618,765 | 1,618,765 | |
| Add Encumbrances | | 59,501 | |
| **Fund Balances, September 30** | $ 1,287,832 | $ 2,233,694 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Discretely Presented Component Unit
## Westside Development Corporation
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Expenditures:** | | | |
| Economic Development and Opportunity: | | | |
| Personal Services | $ 126,432 | $ 20,247 | $ 106,185 |
| Contractual Services | 143,182 | 99,592 | 43,590 |
| Commodities | 10,641 | 7,410 | 3,231 |
| Other Expenditures | 4,745 | 1,289 | 3,456 |
| **Total Expenditures** | 285,000 | 128,538 | 156,462 |
| **(Deficiency) of Revenues (Under) Expenditures** | (285,000) | (128,538) | $ 156,462 |
| Fund Balances, October 1 | 595,964 | 595,964 | |
| **Fund Balances, September 30** | $ 310,964 | $ 467,426 | |

In fiscal year 2006-2007, Westside Development Corporation was created as a separate entity whose budget and initial funding are provided by the City.

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual - (Budgetary Basis)
## Permanent Fund
## San Jose Burial Park Fund
Year Ended September 30, 2007

| | 2007 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous: | | | |
| Sales | $ 276,700 | $ 367,038 | $ 90,338 |
| Interest on Investments | 92,640 | 104,260 | 11,620 |
| **Total Revenues** | 369,340 | 471,298 | 101,958 |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 357,158 | 362,618 | (5,460) |
| Contractual Services | 11,367 | 27,365 | (15,998) |
| Commodities | 12,543 | 10,588 | 1,955 |
| Other Expenditures | 89,775 | 112,307 | (22,532) |
| Capital Outlay | 5,589 | 5,589 | |
| **Total Expenditures** | 476,432 | 518,467 | (42,035) |
| **(Deficiency) of Revenues (Under) Expenditures** | (107,092) | (47,169) | 59,923 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (36,051) | (1,756) | 34,295 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (143,143) | (48,925) | $ 94,218 |
| Fund Balances, October 1 | 2,244,927 | 2,244,927 | |
| Add Encumbrances | | 482 | |
| **Fund Balances, September 30** | $ 2,101,784 | $ 2,196,484 | |

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

# City of San Antonio, Texas

## *Pension Schedules*

## Required Supplementary Information - (Unaudited)

## Pension Schedules

## Schedules of Funding Progress

Last Three Fiscal Years

### 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 |
|---|---|---|---|---|---|---|
| 10-01-06 | $ 1,824,386 | $ 2,028,761 | $ 204,375 | 89.9% | $ 221,539 | 92.3% |
| 10-01-05 | 1,676,075 | 1,910,789 | 234,714 | 87.7% | 207,145 | 113.3% |
| 10-01-04 | 1,540,286 | 1,838,371 | 298,085 | 83.8% | 204,516 | 145.8% |

### 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 |
|---|---|---|---|---|---|---|
| 12-31-06 | $ 464,287 | $ 642,808 | $ 178,521 | 72.2% | $ 231,262 | 77.2% |
| 12-31-05 | 475,325 | 642,202 | 166,877 | 74.0% | 209,176 | 79.8% |
| 12-31-04 | 464,345 | 621,034 | 156,689 | 74.8% | 204,088 | 76.8% |

### CPS ENERGY - ALL EMPLOYEE PLAN

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-06 | $ 955,300 | $ 906,400 | $ (48,900) | 105.4% | $ 210,074 | (23.3)% |
| 01-01-05 | 902,100 | 837,600 | (64,500) | 107.7% | 198,441 | (32.5)% |
| 01-01-04 | 839,800 | 795,100 | (44,700) | 105.6% | 189,892 | (23.5)% |

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

## Required Supplementary Information - (Unaudited)

## Pension Schedules

## Schedules of Funding Progress

Last Three Fiscal Years

### 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 |
|---|---|---|---|---|---|---|
| 12-31-06 | $ 59,801 | $ 75,652 | $ 15,851 | 79.0% | $ 65,078 | 24.4% |
| 12-31-05 | 55,902 | 70,703 | 14,801 | 79.1% | 62,619 | 23.6% |
| 12-31-04 | 52,985 | 66,465 | 13,480 | 79.7% | 60,588 | 22.2% |

### SAN ANTONIO WATER SYSTEM - PMLIC

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-06 | $ 57,847 | $ 75,097 | $ 17,250 | 77.0% | $ 60,836 | 28.4% |
| 01-01-05 | 52,412 | 63,064 | 10,652 | 83.0% | 59,476 | 18.0% |
| 01-01-04 | 47,249 | 57,241 | 9,992 | 83.0% | 56,932 | 18.0% |

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

# Required Supplementary Information - (Unaudited)

## Postemployment Schedules

## Schedules of Funding Progress

Last Three Fiscal Years

### CPS ENERGY - HEALTH PLAN

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) [1] | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-06 | $ 133,851 | $ 228,446 | $ 94,595 | 58.6% | $ 210,074 | 45.0% |
| 01-01-05 | 121,700 | 233,280 | 111,580 | 52.2% | 198,441 | 56.2% |
| 01-01-04 | 109,486 | 199,076 | 89,590 | 55.0% | 189,892 | 47.2% |

### CPS ENERGY - DISABILITY PLAN

| ACTUARIAL VALUATION DATE [2] | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-06 | $ 4,109 | $ 6,000 | $ 1,891 | 68.5% | $ 210,074 | 0.9% |

### CPS ENERGY - LIFE PLAN

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) [3] | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-06 | $ 46,662 | $ 60,903 | $ 14,241 | 76.6% | $ 210,074 | 6.8% |
| 01-01-05 | 44,174 | 58,021 | 13,847 | 76.1% | 198,441 | 7.0% |
| 01-01-04 | 41,979 | 52,309 | 10,330 | 80.3% | 189,892 | 5.4% |

[1] The actuarial accrued liability consisted of the liability for both retired employees and active employees. The actuarial accrued liability for retired employees was $101.6 million for January 1, 2006; $104.5 million for January 1, 2005; and $80.5 million for January 1, 2004.

[2] Per GASB Statement 43, the Actuarial Accrued Liability is not being reported for the Actuarial Valuation Dates of 1/1/2005 and 1/1/2004 since they were not calculated in accordance with this Statement.

[3] The actuarial accrued liability consisted of the liability for both retired employees and active employees. The actuarial accrued liability for retired employees was $27.0 million for January 1, 2006; $25.0 million for January 1, 2005; and $21.8 million for January 1, 2004.

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

# CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

# City of San Antonio, Texas

## *Supplemental Information*

City of San Antonio, Texas

# *Schedule of Expenditures of State Awards*

# *(by Grantor, State Program and Grant Number)*

## Schedule of Expenditures of State Awards
September 30, 2007

| STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM | GRANT NUMBER | CITY NUMBER | STATE EXPENDITURES |
|---|---|---|---|
| **Texas Commission on Environmental Quality:** | | | |
| **Pass Through - Alamo Council of Governments:** | | | |
| AACOG Grant | 07-18-G02 | 26-008051 | $ 83,457 |
| Automated Garbage & Recycle Education 2006-2007 | 07-18-G04 | 26-008049 | 61,364 |
| Automation Education 2006-2007 | 07-18-G10 | 26-008050 | 243,889 |
| Botanical Garden Waste Reduction | NA | 26-008031 | (980) |
| Educational Outreach Recycling 2006-2007 | 07-18-G03 | 26-008047 | 12,185 |
| Glass Recycling Drop-Off Site FY 2006 | 06-18-G14 | 26-008041 | 62,748 |
| GPS-Based Tracking and Enforcement Program | 03-18-G06 | 26-008027 | 543 |
| HHW/Bitter Brush Recycling Center FY 2006 | 06-18-G10 | 26-008042 | 42,184 |
| Household Hazardous Waste Drop-Off Site FY 2003 | 02-18-G11 | 26-008023 | 722 |
| Household Hazardous Waste Drop-Off Site FY 2006 | 06-18-G09 | 26-008043 | 61,214 |
| Illegal Dumping Education and Enforcement | 03-18-G01 | 26-008026 | 6 |
| Pilot Citizen Collection Center 2002-2003 | 03-18-G07 | 26-008028 | 11,159 |
| River Walk Pump Conservation | NA | 26-008029 | 27,342 |
| Supplemental Environmental Project | 03-18-G08 | 26-008029 | (27,380) |
| Used Tire Recycling 2006-2007 | 07-18-G07 | 26-008048 | 1,115 |
| **Total Pass Through - Alamo Council of Governments** | | | $ 579,568 |
| **Air Monitors:** * | | | |
| Air Monitoring 2004-2007 | TCEQ 582-5-5585 | 26-008035 | $ 36,512 |
| Air Monitoring 2006-2008 | TCEQ 582-7-72672 | 26-008045 | 252,167 |
| Air Monitors Lake Calaveras 2005-2006 | 582-6-72649 | 26-008040 | 27,529 |
| Air Monitoring in SA TCEQ PM 2.5 2007-2008 | 582-8-72698 | 26-008052 | 2,332 |
| **Total Air Monitors** | | | $ 318,540 |
| **Recycling and Green Waste Education Program:** | | | |
| Recycling and Green Waste Education Program FY 2002-2003 | 02-18-G02 | 26-008025 | $ (27) |
| Recycling and Green Waste Education Program FY 2006-2007 | 06-18-G08 | 26-008044 | 54,642 |
| **Total Recycling and Green Waste Education Program** | | | $ 54,615 |
| **Total Texas Commission on Environmental Quality** | | | $ 952,723 |
| **Texas State Library and Archives Commission** | | | |
| **State Library Cluster:** | | | |
| Library Systems Operations State 2006-2007 | 470-07010 | 26-018134 | $ 61,235 |
| Lone Star Libraries Grant 2007 | 442-07436 | 26-018136 | 87,181 |
| **Total State Library and Archives Commission State Library Cluster** | | | $ 148,416 |
| **Texas Commission on Alcohol and Drug Abuse:** | | | |
| S.A. Regional Detoxification 2000-2001 | 10163 | 26-015018 | $ (7,203) |
| S.A. Regional Detoxification 2001-2002 | 10511 | 26-015020 | (12,712) |
| S.A. Regional Detoxification 2002-2003 | 10653 | 26-015022 | (20,410) |
| S.A. Regional Detoxification 2003-2004 | NONE | 26-015023 | 36,255 |
| **Total Texas Commission on Alcohol and Drug Abuse** | | | $ (4,070) |

* Major Program

See accompanying Notes to the Schedule of Expenditures of State Awards

## Schedule of Expenditures of State Awards
September 30, 2007

| STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM | GRANT NUMBER | CITY NUMBER | STATE EXPENDITURES |
|---|---|---|---|
| **Texas Department of State Health Services:** | | | |
| AIDS/HIV Support Project 2001-2002 | 7460020708028 | 26-016050 | $ 23,793 |
| Bio-Terrorism Preparation 2001-2002 | 74600207080220 | 26-016050 | $ (3,840) |
| **Core Public Health Project:** | | | |
| Core Public Health Project 2000-2001 | 74600207080113 | 26-016040 | $ (23,033) |
| Core Public Health Project 2003-2004 | 74600207080408A | 26-016062 | (10,492) |
| **Total Core Public Health Project** | | | $ (33,525) |
| **Health Education Project:** | | | |
| Health Education Project 2000-2001 | 74600207080114 | 26-016040 | $ (23,937) |
| Health Education Project 2001-2002 | 74600207080211 | 26-016045 | (98) |
| Health Education Project 2002-2003 | 74600207080311 | 26-016053 | (9,283) |
| Health Education Project 2003-2004 | 74600207080411 | 26-016062 | (5,098) |
| **Total Health Education Project** | | | $ (38,416) |
| **Health Services/Education Program:** | | | |
| Health Services/Education Program 2005-2006 | 7460020708 2006 | 26-016111 | $ 18,635 |
| Health Services/Education Program 2006-2007 | 7460020708A 2007 | 26-016109 | 213,487 |
| **Total Health Services/Education Program** | | | $ 232,122 |
| **Inner -City School Immunization:** | | | |
| Inner -City School Immunization 2000-2001 | 74600207080115 | 26-016040 | $ (61,433) |
| Inner -City School Immunization 2001-2002 | 74600207080213 | 26-016050 | (65,923) |
| Inner-City School Immunization 2002-2003 | 74600207080313 | 26-016053 | (30,647) |
| Inner-City School Immunization 2004-2005 | 74600207080504 | 26-016067 | (4,456) |
| Inner-City School Immunization 2005-2006 | 7460020708 2006 | 26-016111 | (190) |
| Inner-City School Immunization 2006-2007 | 7460020708A 07 | 26-016109 | 571,325 |
| **Total Inner-City School Immunization** | | | $ 408,676 |
| **Milk Sample Lab Tests:** | | | |
| Milk Sample Lab Tests 2003-2004 | 7460020708C0403 | 26-016062 | $ 27,827 |
| Milk Sample Lab Tests 2006-2007 | 7460020708B 2007 | 26-016109 | 34,006 |
| **Total Milk Sample Lab Tests** | | | $ 61,833 |
| Project Health Schools 2002-2003 | 74600207080301 | 26-016046 | $ (1,046) |
| **Subtotal Texas Department of State Health Services** | | | $ 649,597 |

See accompanying Notes to the Schedule of Expenditures of State Awards

## Schedule of Expenditures of State Awards
September 30, 2007

| STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM | GRANT NUMBER | CITY NUMBER | STATE EXPENDITURES |
|---|---|---|---|
| **Texas Department of State Health Services (Continued):** | | | |
| **Public Health State Support Project:** | | | |
| Public Health State Support Project 2004 | 74600207080509 | 26-016067 | $ (1,913) |
| Public Health State Support Project 2004 | 74600207080502 | 26-016066 | 9 |
| Public Health State Support Project 2004-2005 | 7460020708 05 | 26-016067 | 16,205 |
| Public Health State Support Project 2005 | 7460020708A05 | 26-016067 | 93 |
| Public Health State Support Project 2005-2006 | 7460020708-05A0 | 26-016066 | (19,792) |
| Public Health State Support Project 2008 | 2008-024472-001 | 26-016116 | 13,749 |
| **Total Public Health State Support Project** | | | $ 8,351 |
| **Special T.B. Outreach Project:** | | | |
| Special T.B. Outreach Project 2000-2001 | 74600207080110 | 26-016040 | $ (23,301) |
| Special T.B. Outreach Project 2001-2002 | 7460020708026 | 26-016050 | (25,358) |
| Special T.B. Outreach Project 2002-2003 | 74600207080308 | 26-016053 | (9,907) |
| Special T.B. Outreach Project 2003-2004 | 74600207080407 | 26-016062 | (16,038) |
| Special T.B. Outreach Project 2006-2007 | 7460020708C 200 | 26-016109 | 173,674 |
| **Total Special T.B. Outreach Project** | | | $ 99,070 |
| **STD Control Project:** | | | |
| STD Control Project 2000-2001 | 74600207080111 | 26-016040 | $ (10,660) |
| STD Control Project 2001-2002 | 74600207080210 | 26-016050 | (22,292) |
| STD Control Project 2002-2003 | 74600207080307 | 26-016053 | (19,823) |
| STD Control Project 2003-2004 | 74600207080406 | 26-016062 | (47,302) |
| **Total STD Control Project** | | | $ (100,077) |
| STD/HIV Hepatitis C Program 2001-2002 | 74600207080219 | 26-016050 | $ (43,896) |
| **STRAC Grant Project:** | | | |
| STRAC Grant Project FY 2005 | NONE | 26-016106 | $ 933 |
| STRAC Grant Project FY 2006 | NONE | 26-016112 | 19,021 |
| STRAC Grant Project FY 2007 | NONE | 26-016114 | 30,195 |
| **Total STRAC Grant Project** | | | $ 50,149 |
| **Title V Family Planning:** | | | |
| Title V Family Planning 2002-2003 | 7460020708A0301 | 26-016055 | $ (103,810) |
| Title V Family Planning 2004-2005 | 7460020708A 05 | 26-016067 | (160) |
| Title V Family Planning 2005-2006 | 7460020708A 200 | 26-016111 | 160,804 |
| Title V Family Planning 2006-2007 | 2007-020438-002 | 26-016109 | 56,713 |
| **Total Title V Family Planning** | | | $ 113,547 |
| Title V FFS-Family Planning 2007-08 | 2008-023755-001 | 26-016116 | $ 8,524 |
| **Title V Maternal & Child Health:** | | | |
| Title V Maternal & Child Health 2002-2003 | 7460020708A0302 | 26-016055 | $ (330,185) |
| Title V Maternal & Child Health 2003-2004 | 7460020708C0401 | 26-016064 | (11,249) |
| Title V Maternal & Child Health 2004-2005 | 7460020708A05 | 26-016067 | 57 |
| Title V Maternal & Child Health 2005-2006 | 7460020708A 200 | 26-016111 | 205,869 |
| **Total Title V Maternal & Child Health** | | | $ (135,508) |
| Title X Family Planning 2004-2005 | 7460020708 2005 | 26-016066 | $ (9) |
| **Total Texas Department of State Health Services** | | | $ 649,748 |

See accompanying Notes to the Schedule of Expenditures of State Awards

## Schedule of Expenditures of State Awards
September 30, 2007

| STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM | | GRANT NUMBER | CITY NUMBER | STATE EXPENDITURES |
|---|---|---|---|---|
| **Texas Department of Transportation:** | | | | |
| Intelligent Transportation System | | NONE | 26-059214 | $ 91,560 |
| **Regional Auto Crimes Team:** | * | | | |
| Regional Auto Crimes Team 2002-2003 | | SAT041006303 | 26-031012 | $ (15,852) |
| Regional Auto Crimes Team 2003-2004 | | SAT041006304 | 26-031013 | 38,057 |
| Regional Auto Crimes Team 2004-2005 | | SAT041006305 | 26-031014 | 969 |
| Regional Auto Crimes Team 2005-2006 | | SAT041006306 | 26-031015 | (94,652) |
| Regional Auto Crimes Team 2006-2007 | | SAT041006307 | 26-031016 | 929,077 |
| Regional Auto Crimes Team 2007-2008 | | SAT041006308 | 26-031017 | 66,968 |
| **Total Regional Auto Crimes Team:** | | | | $ 924,567 |
| **Total Texas Department of Transportation** | | | | $ 1,016,127 |
| **Texas Attorney General's Office:** | | | | |
| **State Confiscated Property:** | * | | | |
| New State Account | | NA | 29-038000 | $ 493,752 |
| Vice Seizures | | NA | 29-040000 | 209,824 |
| Salvage Reduction/Program Seizures | | NA | 29-042000 | 5,527 |
| HIDTA-Task Force Seizures | | NA | 29-043000 | 34,137 |
| HIDTA-DPS Seizures | | NA | 29-044000 | 40,844 |
| **Total Texas Attorney General's Office** | | | | $ 784,084 |
| **Office of the Governor - Texas Telecommunications Infrastructure Fund Board:** | | | | |
| UTHSCSA Internet Collaborative Project 1998-1999 | | QE-1998-ICI1-1873 | 26-040002 | $ (48,797) |
| Library Technology Improvements 2000-2001 | | QE-2001-LTA4S-4166 | 26-040003 | (121,569) |
| **Total Office of the Governor - Texas Telecommunications Infrastructure Fund Board** | | | | $ (170,366) |
| **Office of the Governor - Texas Governor's Division of Emergency Management** | | | | |
| Hurricane Preparedness Fund | | NA | 26-065023 | $ 28,775 |
| **TOTAL EXPENDITURES OF STATE AWARDS** | | | | $ 3,405,437 |

* 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, 2007**

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 2007, there were no state awards provided to subrecipients.

3. Circumstances were identified during the fiscal year 2005 audit regarding the City's grant programs, which resulted in the City undertaking several initiatives to address and correct the issues. These initiatives included performing a review and validation effort on the transaction amounts recorded for each grant, resulting in numerous grant-related adjustments being recorded to the City's financial records. The City's entries involved reclassifications of expenditures to the correct grant years which did not impact the overall revenues and expenses recorded; and adjustments to transfer expenditures in the grant funds that were either in excess of the grant award or were not requested for reimbursement from the grantor within the grant period. These adjustments were transferred to operating funds. As a result of these entries the Schedule of Expenditures of State Awards (SESA) for fiscal years 2006 and 2007 presented expenditure balances, both positive and negative, for prior grant awards. Additionally, some of our reports submitted to the granting agencies both during the year and in years past no longer agree with the issued SESA due to these entries.

City of San Antonio, Texas

# *Other Reports*

City of San Antonio, Texas

# *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the State of Texas Single Audit Circular*

Grant Thornton

**Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Audit • Tax • Advisory
**Grant Thornton LLP**
1717 Main Street, Suite 1500
Dallas, TX 75201-9436
T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 18, 2008. Our report was modified to include a reference to other auditors. Our report was also modified to include an explanatory paragraph related to the restatement of net assets as of September 30, 2006. 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 Development Agency, San Antonio Education Facilities Corporation, Port Authority of San Antonio, San Antonio Housing Trust Foundation, Inc., San Antonio Local Development Company and Brooks Development Authority, blended component units, which represent 74%, 77% and 40%, 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 the San Antonio Educational Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, 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 our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies 2007-1 through 2007-7 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-3 to be material weaknesses.

**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 July 18, 2008.

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
July 18, 2008

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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F 214.561.2370
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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, 2007. The City's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Texas Single Audit Circular*. Those standards and the *State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2007-8 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding equipment and real property management that is applicable to its State Confiscated Property program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that 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, 2007.

Grant Thornton

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-8 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2007-8 to be a material weakness.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, members of the City Council, management of the City, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
July 25, 2008

City of San Antonio, Texas

# *Schedule of Findings and Questioned Costs*

**City of San Antonio, Texas**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2007

## SECTION I - SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

| | |
|---|---|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| • Material weakness identified? | Yes |
| • Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

*State Awards*

| | |
|---|---|
| Internal controls over major program: | |
| • Material weakness identified? | Yes |
| • Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditor's report issued on compliance for major programs: | Unqualified for all major programs except for State Confiscated Property, which was qualified |
| Any audit findings disclosed that are required to be reported in accordance with the *State of Texas Single Audit Circular?* | Yes |

Identification of major programs:

| Grant Numbers | Name of State Program or Cluster |
|---|---|
| TCEQ 582-7-72672, TCEQ 582-5-5585 TCEQ 582-6-72649, TCEQ 582-8-72698 | Air Monitors |
| SAT041006303, SAT041006304, SAT041006305, SAT041006306, SAT041006307, SAT041006308 | 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? | No |

## PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

**Finding: 2007-1**
***Capital Assets***
*Type of Finding: Material Weaknesses*

Criteria

In accordance with Government Accounting Standards Board Statement No. 34, the entity is required to report capital asset balances and related depreciation in the City's government-wide financial statements. Included in capital assets, are projects which are under construction and have not been completed as of the entity's fiscal year end. These assets are required to be reported as construction-in-progress (CIP) and are not depreciated until their construction is complete and they are placed in service.

Condition and Context

As a result of prior year observations as communicated by predecessor auditors, the City's system for closing out construction in progress (CIP) projects was inadequate. During fiscal year 2007, as a result of its CIP validation project, the City identified several projects that were completed and had not been accounted for as having been placed into service. Additionally, the City identified projects that were included in CIP but should have been expensed as the items would not become City assets and miscellaneous clean up matters. The adjustments resulted in the following:

Airport System Fund

1. A cumulative reclassification of $37,867,962 of CIP to depreciable capital assets for assets that were placed into service from FY 2001 – FY 2006;
2. Resulting in a cumulative increase in depreciation expense of $2,379,067 for the same time period as 1;
3. Increased expenses of $21,583,490 for items that should not have been classified as CIP; and
4. Clean up of CIP balances that could not be identified to a specific project or from the reconciliation of the financials to the assets' sub ledgers resulting in an increase to expense of $524,142.

Governmental Type Activities (GTA)

1. A reclassification of $157,762,814 of CIP to depreciable capital assets for assets that were placed into service from FY 1990 – FY 2006;
2. Resulting in a cumulative increase in depreciation expense of $18,909,490 for the same time period as 1; and
3. Clean up of CIP balances that could not be identified to a specific project, negative CIP balances or from the reconciliation of financials to the assets' sub ledgers result in a decrease to expense of $4,620,048.

Parking System Fund

1. A reclassification of $1,295,331 of CIP to depreciable capital assets;
2. Resulting in increased depreciation expense of $161,916.

In addition, per the City's review of the CIP projects listing, it was noted that there were project costs that were not properly settled into CIP but were shown as expenses. These unsettled costs resulted in an increase of $11,160,393 in Governmental Activities net assets and a decrease of $1,644,173 in Business Type Activities net assets.

Furthermore, as a result of depreciation testing, it was determined that a portion of depreciable assets had not been properly depreciated resulting in an (under)/overstatement of accumulated depreciation in the Governmental, Business Type, Airport System, Aggregate Remaining Funds of ($8,091,362), $366,678, $224,824, and ($178,307), respectively.

The above adjustments resulted in a restatement of beginning of the year net assets.

Recommendation

We recognize that the City has implemented a number of corrective actions to address this issue. We recommend that the City perform an annual review of all outstanding construction in progress projects to determine if assets should be placed into service. Additionally, the City should provide ongoing training to the applicable departments to ensure that they fully understand the requirements related to close out of construction in progress. Furthermore, we recommend that periodic analytical review of capital asset activity be performed to ensure proper recognition of all capital asset transactions. This review should include reviews of unsettled costs as well as depreciation reasonableness and recalculation tests.

Views of Responsible Officials and Planned Corrective Actions:

*For external financial reporting purposes, the City records and depreciates capital assets in service for government-wide reporting under Government Accounting Standards Board Statement No. 34. Included in capital assets, are projects which are under construction and have not been completed as of the fiscal year end. These assets are required to be reported as construction-in-process (CIP) and are not depreciated until their construction is complete and they are placed into service. During the current year's audit, several adjustments were identified involving CIP transactions that were incorrectly recorded or classified in the financial records. These adjustments have no impact on the City's general or enterprise funds expenditures/expenses or budgeting process and solely impact the financial reporting of capital assets.*

*Over the course of the last couple of years the City has implemented a number of corrective actions to address issues regarding accounting for construction-in-progress (CIP) to include the following:*

- *The Finance Department underwent a substantial reorganization and established a new financial reporting section to manage reporting, accounting and operation issues associated with capital projects. This reorganization was completed on May 21, 2007.*

- *The newly reorganized Capital Projects Financial Reporting Section has also been conducting an extensive validation effort of all capital projects consisting of reviewing all capital project balances and closing out older or dormant projects remaining on the City's financial records. In fiscal year 2006 the validation effort focused on identifying Capital Projects with large CIP balances that had been previously transferred into service but remained in CIP. This effort identified several material adjustments involving CIP transactions that were inappropriately recorded or classified in the financial statements. It was originally thought that focusing on the large material balances would capture a majority of the required adjustments. However, upon finalizing the review of closed capital projects in fiscal year 2007, a material number of smaller projects remained in CIP which had also been previously placed into service, resulting in the restatement of beginning balances of net assets.*
- *Administrative Directive 8.9, (A.D.) entitled Financial Management of Capital Projects was issued on March 1, 2008 in order to establish policies and procedures for use by City Departments in the financial management of construction projects and their funding aspects. This A.D. requires departments managing capital projects to provide written notification to the Finance Department when a project has been completed and placed into service. Training on the new A.D. has also been providing to all the individuals responsible for accounting for the City's capital projects.*
- *On February 1, 2008 top level financial positions located in City Departments were transferred to the Finance Department as direct reports in order to further strengthen top level financial controls. This will enable the Finance Department to better enforce compliance with published Administrative Directives and provide continued training and reinforcement of polices and procedures related to capital assets.*

*The City has dedicated a substantial amount of resources and improvements in order to control and improve the accounting for Capital Assets. We believe with these improvements this material weakness has been resolved for fiscal year 2008.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Implementation Date:* *June 2008*

**Finding: 2007-2**
***GAAP Application***
*Type of Finding: Material Weakness*

Criteria

Generally accepted accounting principles (GAAP) requires a debt issuance discount or premium to be amortized as interest expense or income over the life of the debt using the "interest" method. However, other methods of amortization may be used if the results obtained are not materially different from those which would result from the "interest" method.

Condition

During the course of the audit, it was noted that discounts and premiums were calculated on a straight-line amortization method instead of the effective interest method.

**City of San Antonio, Texas**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2007

Context

The City completed an analysis and it was noted that the straight-line method used and the effective interest method calculated resulted in material differences at the fund level for Airport System Fund, Debt Service Fund and Aggregate Remaining Funds, which includes Capital Projects Fund.

Cause

The City had not performed a recent evaluation to determine if there would be a difference in the method being utilized.

Recommendation

The City has adjusted the financial statements to appropriately reflect the financial statements in accordance with GAAP and we recommend that it change its practices so as to utilize the effective interest method prospectively.

Views of Responsible Officials and Planned Corrective Actions:

*In the past the City had evaluated the difference between utilizing the effective interest versus the straight-line method for amortizing discounts and premiums over the life of the debt and determined the results were comparable under each method. As a result, the straight-line method was used for the reason that the amounts calculated were not materially different from those which would have resulted from the "interest" method. However, the City had not recently conducted the analysis. Upon conducting the evaluation for fiscal year 2007 it was determined that a material difference existed and as such the methodology was appropriately changed to use the effective interest method for amortization of premiums and discounts for fiscal year 2007. The City also elected to use the effective interest method to amortize bond issuance costs over the life of the debt resulting in a substantially smaller impact to the financial statements when netted with the adjustment for utilizing the effective interest method for amortization of the premium and discounts. The net impact was an increase in net assets of $140,963 for Business Type Activities and a decrease in net assets of $870,925 for Governmental Activities. It is also important to note that over the life of debt the two methods produce identical results, the primary difference is the timing of the amount recognized in each fiscal year related to the amortization of the discount or premium, and the bond issuance costs. These adjustments have no impact on the City's general or enterprise funds expenditures/expenses or budgeting process.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Implementation Date:* *June 2008*

**Finding: 2007-3**
***Airport Operations***
*Type of Finding: Material Weakness*

Condition and Context

During the course of the audit, it was difficult to reconcile airport lease revenue per the trial balance to supporting documentation and to the footnote disclosure. It was noted that there is incomplete and inconsistent information between airport accounting and contract management that maintains the agreements. It was further noted that a significant majority of airport leases are not captured in the City's accounting system, SAP, but are maintained in a separate system. The City's footnote disclosure was compiled based on information accumulated via spreadsheets generated by the Airport which may not reflect all of the City's airport lease revenue commitments.

Furthermore, it was noted that the written policies and procedures for the recording and maintenance of lease agreements have not been modified since their effective date of May 1990.

Cause

The Airport currently does not have a reliable method for tracking and maintaining lease agreements where the City is the lessor.

Recommendation

We recommend that the City migrate the lease information maintained on the separate system utilized by airport management to SAP to ensure that all City-related activity is maintained on one platform and can be used to properly present the financial statements in accordance with GAAP. Additionally, while the Airport continues its transition, management needs to regularly reconcile the information maintained by contract management to the information that is in the existing system. This reconciliation should be completed prior to migrating any information into SAP. We further recommend that in conjunction with the implementation of this project at the airport, management obtain a comprehensive listing of all lease activities through out the City and include as part of the migration to ensure that all City lease activity (i.e., capital or operating leases) is maintained in one centralized system.

We further recommend that management of the finance department and management of airport accounting review the existing policies and procedures relative to the financial operations of the airport and update them accordingly.

Views of Responsible Officials and Planned Corrective Actions:

*The accounting and reporting for leases at the airport will be improved and addressed through several actions to include a comprehensive reconciliation and data cleansing effort of Airport leases. This action will be completed by August 15, 2008. In addition, the Department is currently in the process of migrating its accounting for lease contracts from its DataPoint legacy system to SAP along with the appropriate training and revisions to its policies and procedures in order to ensure appropriate accounting and reporting of lease activity. This effort is anticipated to be completed by the second quarter of FY 2009.*

*As recommended, the City will reconcile and validate lease activities throughout the City to ensure that all City lease activity (i.e., capital or operating leases) is maintained in one centralized system.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Mark Webb*
*Director, Aviation Department*

*Implementation Date:* *November 2008*

**Finding: 2007-4**
***Accounting Errors***
*Type of Finding: Significant Deficiency*

Condition and Context

A misstatement was identified in the calculation of the bonus accrual for the police department resulting in an approximate adjustment of $1.5 million. Additionally, property taxes were not calculated in accordance with the City's internal property tax revenue, receivable and allowance policies resulting in an approximate adjustment to the allowance of $1.5 million.

Cause

The identification of these errors was not identified through the City's internal control processes.

Recommendation

We recommend that the City review its system configuration for calculating the bonus accrual and make the necessary revisions to ensure that the accrual is calculated within the specified parameters. Additionally, the City should institute a review process as well as perform analytical procedures as part of its year end close process to assist in the identification of anomalies that can be researched and appropriately adjusted if necessary prior to the start of the audit.

Views of Responsible Officials and Planned Corrective Actions:

*The bonus accrual calculation for purposes of calculating the accrued leave liability was incorrectly configured to use a maximum accrual rate of 320 hours versus the correct rate of 400 hours resulting in the accrued leave liability to be understated by approximately $1.5 million. Upon identification of the error, the system configuration for the calculation of the bonus accrual for the Police Department was corrected. As a result, a review of substantially all automated system calculations will be initiated to ensure accurate results. Strengthened procedures will also be implemented to determine the reasonableness of system calculations during the fiscal year end close out process.*

*The allowance for uncollectible property taxes was miscalculated by $1.5 million due to a staff error in the determination of the allowance amount. Staff training and additional procedures will be implemented limiting this from occurring in the future.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Implementation Date:* *October 2008*

**Finding: 2007-5**
***Accounting for Accounts Payable***
*Type of Finding: Significant Deficiency*

Criteria
Under the accrual method of accounting, recognition precedes cash receipts or expenditures and may also occur at, or after, the time of cash receipt or payment. Accordingly, payables for services should be recorded as the services are performed, and payables for assets should be recorded when the risk of ownership of the related assets has been passed to the purchaser.

Condition and Context

During our search for unrecorded liabilities, we noted numerous exceptions in which invoices relating to goods received or services performed prior to year-end were not recorded as payables in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

Cause

We understand that the City has a process in place to evaluate all disbursements greater than $25,000 made after year-end through December. However, this process was not appropriately followed throughout the identified timeframe.

Recommendation

We recommend that additional training be provided to staff regarding the posting of year-end accruals, which includes providing written instructions. Additionally, we recommend the implementation of a review process or certification process that the outlined procedures were adhered to and completed.

Views of Responsible Officials and Planned Corrective Actions:

*The City will strengthen the process in place to evaluate all disbursements greater than $25,000 made after year end to determine that payables are properly accounted for in the correct fiscal year through additional staff training and documented procedures.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Implementation Date:* *September 2008*

**Finding: 2007-6**
***Revenue Recognition***
*Type of Finding: Significant Deficiency*

Criteria

GASB Statement No. 33, as amended, establishes accounting and financial reporting standards for nonexchange transactions. It identifies four classes of nonexchange transactions, based on shared characteristics that affect the timing of recognition. One of the four classes of nonexchange transactions is derived tax revenues which results from assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption). GASB Statement No. 33, paragraph 11, requires recognition of nonexchange transactions unless the transactions are not measurable or are not probable of collection. Revenue recognition under the modified accrual basis of accounting for governmental funds occurs when the underlying transaction occurs, subject to the availability criterion.

Condition and Context

During our audit, it was noted that the City's portion of general sales and use tax is recognized on a cash basis and was not properly recorded due to an oversight error in the calculation. It was further noted while testing tax revenues other than property taxes, that the City does not have any written procedures in place outlining the process used to record general sales and use tax, special sales and use tax, occupancy tax and gross receipts business tax on the modified accrual basis. Additionally, the City discloses in its notes to the financial statements those revenues susceptible to accrual and also defines the availability criterion which means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The above noted tax revenues are not specifically included in the footnote disclosure.

Recommendation

We recommend that the City establish written procedures to be used to perform year end revenue accruals as well as establish a revenue recognition policy related to the above noted tax revenues and modify its footnote disclosure accordingly to reflect this policy.

Views of Responsible Officials and Planned Corrective Actions:

*The City records general sales and use tax, special sales and use tax, occupancy tax and gross receipts business tax on the modified accrual basis in accordance with GASB Statement No. 33 and will document existing procedures utilized to perform year end revenue accruals. Additionally, the footnote disclosures were modified to include a reference to the above revenues.*

*Responsible Person:* *Ben Gorzell, Jr., CPA*
*Director, Finance Department*

*Implementation Date:* *October 2008*

**Finding: 2007-7**
***Security Administration***
*Type of Finding: Significant Deficiency*

Criteria

The City's "AD 7.6 - Security and Passwords" policy states the following:

1. All users' passwords are to expire at intervals of ninety (90) days.
2. Users' passwords must be at least eight (8) characters in length.
3. Passwords must have at least one (1) number, special character and upper and lower case letter to ensure complexity.
4. Accounts will be locked after three (3) unsuccessful login attempts occur.

Condition and Context

However, we noted the following:

1. The UNIX system users' passwords are not required to change periodically. However, the "root" account is required to have the password changed every nine (9) weeks.
2. The network only requires users' passwords to be one (1) character in length.
3. The network does not require users' passwords to be complex.
4. The network and UNIX environments do not lock users' accounts after an unreasonable number of login failed attempts occur.

We further noted that the City does not have a formally documented policy and/or procedure relating to security access reviews being conducted on the critical systems nor is there a security access review process for the critical systems in place. We are aware that the City is in the process of implementing a "segregation of duties" tool for SAP, called Approva that will allow for a formal review to be conducted from a segregation of duties perspective on a weekly basis.

Recommendation

We recommend that the City enforce the following in accordance with their AD 7.6 – "Security and Passwords" policy:

1. Password expiration rules for UNIX system users,
2. Password minimum length policy for the network,
3. Password complexity policy for the network (enable password complexity on Active Directory)
4. System lockout policy on the network and UNIX operating system,

Additionally, we recommend that the City develop and document a formal process to periodically review security access to the critical systems (Network, SAP and UNIX). The process should include what systems and users will be reviewed, the frequency of the review, who will perform the review and how the review will be documented (signed report, email, etc.).

Views of Responsible Officials and Planned Corrective Actions:

*The City's Administrative Directive 7.6 governing Security and Passwords, section (VI. A.) states that 'ITSD recommends the use of "strong" passwords", not requires. Barring this exception, the City agrees with the recommendation and will proceed as follows:*

*The City's Information and Technology Services Department (ITSD) will enforce password expiration rules for UNIX system users in compliance with the Administrative Directive referenced above. This change will be made as soon as is practical and in accordance with ITSD's change management process. We anticipate compliance with the requirements of the Administrative Directive by September 30, 2008.*

*ITSD will also begin an initiative to implement password compliance in accordance with the Administrative Directive for 'network' (Active Directory) accounts. This plan will be finalized by September 30th and will begin with a communications plan to build awareness among the user community. An immediate cutover would result in a significant loss of productivity and an increased workload for the IT Service Desk. ITSD is currently evaluating and developing a plan and recommendation for procurement and implementation of an Identity and Access Management solution for the enterprise in 2009 in order to address this issue.*

*Responsible Person:* *Richard Varn*
*Chief Information Officer, City Manager's Office*

*Implementation Date:* *September 2009*

## PART III - FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS

### Finding: 2007-8

**State Title:** State Confiscated Property

**Grant Number:** N/A

**State Award Number:** N/A

**State Award Year:** 06/07

**State Agency:** N/A

**Type of Finding:** Material Weakness and Material Noncompliance

**Equipment & Real Property Management**

**Criteria or Specific Requirement:**
A physical inventory of the equipment acquired under the grant must be taken and the results reconciled with the property records at least once every two years.

**Condition:**
No documentation of the physical inventory count and the property records reconciliation was provided.

**Questioned Costs:**
Not applicable

**Context:**
The City did not have any documentation to support that a physical inventory count and property records reconciliation was performed within the last two years.

**Effect:**
The City's lack of physical inventory count and property records reconciliation causes the City to be in noncompliance with specific contract conditions required by the State of Texas Uniform Grants Management Standards, which could potentially lead to loss or return of funding.

**Cause:**
Failure to perform and document the physical inventory count and the property records reconciliation.

**Recommendation:**
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.

**Views of Responsible Officials and Planned Corrective Actions:**

*From October through May 2008 a physical inventory of vehicles assigned to the SAPD was taken by the SAPD Fleet Services Office. All substations and satellite offices were visited by Fleet personnel and a physical inventory list was requested from each substation and SAPD unit that uses fleet vehicles. The list of vehicles supplied by the various substations and SAPD units were compared to the Fleet Services Office administrative list and differences were investigated. Vehicles purchased with asset seizure funds were accounted for.*

*The HIDTA grant and the ReACT grant which oversees two (2) of the state seizure funds that were audited had equipment purchased with seizure funds during the audit period, both grants maintain an inventory list and the items purchased were accounted for (2 printers for the HIDTA grant and cameras for the ReACT grant totaling $1,570.00 and $1,924.90 respectively).*

*Furniture purchased with seizure funds during fiscal year 2007 totaling $2,447.37 was inventoried against the purchase order by the SAPD's Facilities Administration during April 2007 and all items were accounted for.*

*The SAPD follows City policies concerning inventory purchased with asset forfeiture funds. When computer equipment is purchased ITSD assigns it a devise ID tag and a City tag, other fixed assets purchased with asset forfeiture funds are given a City tag number and the information is sent to Finance, Fixed Asset Section if the fixed asset value is over $1,500.00.*

*With the implementation of Administrative Directive 8.10 (AD 8.10) entitled Financial Management of Grants effective March 1, 2008, additional inventory monitoring and tracking procedures were implemented across the City to ensure grant purchased equipment regardless of cost, is being tagged and tracked.*

*Responsible Person:* *William McManus*
*Chief of Police*

*Implementation Date:* *March 2008*

CITY OF SAN ANTONIO, TEXAS