City of San Antonio, Texas

FINANCIAL & COMPLIANCE REPORT ON FEDERAL GRANTS

"SINGLE AUDIT REPORT"

Fiscal Year Ended September 30, 2007

CITY OF SAN ANTONIO, TEXAS

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

For Fiscal Year Ended September 30, 2007

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City of San Antonio, Texas

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July 25, 2008

To the Honorable Mayor and City Council:

The City of San Antonio's Financial and Compliance Report on Federal Grants (Single Audit Report) for the fiscal year ended September 30, 2007, was audited by the City's Independent Auditor, Grant Thornton LLP, and has been prepared in accordance with OMB Circular A-133 promulgated to implement the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the AICPA Audit Guide "Governmental Auditing Standards and Circular A-133 Audits." The report is comprised of the City's Management's Discussion and Analysis (MD&A), Basic Financial Statements, Schedule of Expenditures of Federal Awards, 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*, Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and a Schedule of Findings and Questioned Costs.

The City was awarded a total of $168.829 million in Federal assistance for the fiscal year ended September 30, 2007, compared to $153.567 million the previous fiscal year. The net increase of $15.262 million is reported in the following categories:

Social Services	$ 5,987,429
Air Transportation	7,878,375
Interlibrary Services	(239,588)
Public Health	(2,537,932)
Recreation and Arts	(94,052)
Criminal Justice	4,352,139
Economic Development	66,358
Environmental Quality	(102,548)
Emergency Management	21,473
Community Development Block Grant - Year 32 FY 2007	(15,248)
HOME Program Grants - Year 15 FY 2007	(54,158)
Total Net Increase	$ 15,262,248

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

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

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

CATEGORICAL GRANTS

Social Services - $99,003,298

In fiscal year 2007, the City was awarded Social Services grants totaling $99,003,298 compared to $93,015,869 awarded to the City in the previous year. The Department of Community Initiatives received $46,582,363 from the U.S. Department of Health and Human Services (HHS) to operate the Head Start-Early Child Care Program. This program provides a wide range of education and social services to approximately 6,789 low-income, pre-school children and their families. These services are provided at 88 child development centers throughout San Antonio and Bexar County to children ranging from three to five years of age.

The Texas Workforce Commission (TWC) through the Alamo Workforce Development, Inc. (AWD) awarded $41,146,865 from the U.S. Department of Health and Human Services (HHS) to operate the Child Care Delivery System Program (CCDS). The program provides childcare services to low-income working families. The City provides overall coordination of the CCDS Program and includes client services, fiscal management, vendor management, equipment, and materials for qualified CCDS service providers. In fiscal year 2007, the program served 12,339 children as compared to 10,082 in 2006. The TWC also awarded $97,500 to operate the CCDS Mid-Coast Family Program, which provides programs to address family violence, substance misuse, homelessness, youth intervention, and various other social issues that impact families for the Alamo Workforce Development Area.

The Texas Department on Aging and Disability Services (DADS) through the Alamo Area Council of Governments (AACOG) awarded the City grants from HHS in the amount of $2,409,641 to operate the Metro S.A. Comprehensive Nutrition Project and the Supportive Services for the Elderly Program. The Nutrition Project received an award amount of $2,134,391 to provide nutritional and supportive services primarily to senior citizens who have incomes below poverty level and who are undernourished or deprived. These services are provided through non-profit agencies under contract with the City for provision of senior centers, facilities, meal preparation and delivery of supportive services and homebound meals. In 2007, these grants provided approximately 986,671 meals to local senior citizens. The Elderly Program received an award amount of $275,250 to provide approximately 13,616 one-way bus trips primarily for medical appointments to elderly participants.

The U.S. Department of Housing and Urban Development (HUD) awarded the City grants in the amount of $6,911,404 to support persons affected by AIDS and assist the homeless. These include the Housing Opportunities for Persons with AIDS grant in the amount of $972,000 which provides support to enable the acquisition and/or rehabilitation of facilities, supportive services and operations in urban communities so as to improve conditions to persons with HIV/AIDS and their families. The Emergency Shelter Program grant in the amount of $640,253 provides annual support to enable the rehabilitation, supportive services and operations in urban communities so as to improve conditions for persons with HIV/AIDS and their families. The Supportive Housing Program grant in the amount of $5,239,469 is designed to promote the development of supportive housing and supportive services in the transition from homelessness to self-sufficiency. The Housing Counseling Program Grant in the amount of $59,682 will be used to provide comprehensive housing counseling services.

The Texas Department of Housing and Community Affairs (TDHCA) awarded $1,726,883 received from HHS to operate a Community Service Block Grant for the purpose of providing emergency services for our community's most vulnerable residents. Emergency services include: emergency food, rental assistance, utility assistance, and prescription assistance.

The Texas Education Agency (TEA) awarded a $128,642 grant received from the U.S. Department of Education (DOE) to operate the EL/CIVICS program which emphasizes instruction of the rights and responsibilities of citizenship, naturalization procedures, civic participation, US history and government to help students acquire the skills and knowledge to become active and informed parents, workers, and community members.

CATEGORICAL GRANTS (Continued)

Social Services (Continued)

Head Start - Early Child Care Program	(HHS)	$	46,582,363
Child Care Delivery System Program	(HHS/TWC/AWD)		41,146,865
CCDS Mid-Coast Family Program	(HHS/TWC/AWD)		97,500
Metro S.A. Comprehensive Nutrition Project	(HHS/DADS/AACOG)		2,134,391
Supportive Services for the Elderly Program	(HHS/DADS/AACOG)		275,250
Housing Opportunities for Persons with AIDS	(HUD)		972,000
Emergency Shelter Program	(HUD)		640,253
Supportive Housing Program	(HUD)		5,239,469
Housing Counseling Program	(HUD)		59,682
Community Service Block Grant	(HHS/TDHCA)		1,726,883
EL/CIVICS	(DOE/TEA)		128,642
Total FY 2007 Awards		$	99,003,298

Air Transportation - $15,756,739

For fiscal year 2007, the City's Aviation Department received five grants totaling $15,756,739, compared to three grants totaling $7,878,364 awarded to the City in the previous year. As a result of the September 11, 2001 terrorist attack, the Aviation and Transportation Security Act was established to improve airport security. The Transportation Security Administration (TSA) awarded the City two grants one for $250,000 to fund the Airport K-9 Grant Program and the second for $396,902 to fund the Airport Checkpoint Grant Program. The Federal Aviation Administration (FAA) awarded $200,000 to fund the SMS Pilot Study, $6,094,446 in support of the Acoustical Treatment Program and $8,815,391 for the various airport improvements, including extensions of a runway and holding bay, development of a Runway Safety Action Team, and to fund an update to the Terminal Area Forecast for the City.

Airport K-9 Grant	(TSA)	$	250,000
Airport Checkpoint Grant	(TSA)		396,902
SMS Pilot Study	(FAA)		200,000
Acoustical Treatment Program	(FAA)		6,094,446
Airport Improvement Program	(FAA)		8,815,391
Total FY 2007 Awards		$	15,756,739

Interlibrary Services - $834,555

In fiscal year 2007, the City was awarded Library Grants totaling $834,555 compared to $1,074,143 awarded in the previous year. The San Antonio Public Library acts as the State designated Major Resource Center and is charged with utilizing grants awarded by the Institute of Museum and Library Services (IMLS) and passed through the Texas State Library and Archives Commission (TSLAC). These grants provide funds for the Alamo Area Library System (AALS), which oversees the Library Systems Operation Grant, the Technical Assistance Negotiated Grant and the Interlibrary Loan Center which oversees the Interlibrary Loan Grant. These grants are used for the purpose of public library development within the AALS area which consists of 21 counties including Bexar.

CATEGORICAL GRANTS (Continued)

Interlibrary Services (Continued)

An award of $290,691 was granted for the Interlibrary Loan Services through the TSLAC. This program provides interlibrary loan services to multi-type libraries in a 21 county area that includes Bexar County. A Library Systems Operations Federal Grant award for $486,264 was accepted through TSLAC. These funds will be used for the purpose of public library development in AALS which provides consulting and continuing education for library staff in 46-member public libraries that includes the San Antonio Public Library. A Technical Assistance Negotiated Grant in the amount of $57,600 was also awarded to the City to provide technical assistance to support member libraries in the utilization, maintenance, and security of computer resources.

Interlibrary Loan Services - Federal Grant	(IMLS/TSLAC)	$	290,691
Library System Operations - Federal Grant	(IMLS/TSLAC)		486,264
Library Technical Assistance Negotiated Grant	(IMLS/TSLAC)		57,600
Total FY 2007 Awards		$	834,555

Public Health - $13,270,239

In fiscal year 2007, the City was awarded Public Health Grants totaling $13,270,239 compared to $15,808,171, awarded to the City in the previous year. The San Antonio Metropolitan Health District (SAMHD) received $1,881,528 in Public Health State Support Project grants passed through Texas Department of State Health Services (DSHS) from HHS to supplement the delivery of comprehensive public health services to protect the health of all citizens in the San Antonio and unincorporated areas of Bexar County. A $2,293,491 HHS grant passed through DSHS was awarded to fund the Childhood Immunization Maintenance Project, which provides immunization protection against vaccine preventable diseases for children throughout the community. A $1,493,115 HHS grant passed through DSHS was awarded to fund the Steps to a Healthier San Antonio Program, which provides intervention strategies to improve nutrition, increase physical activity, and prevent tobacco use and exposure.

The HHS also awarded SAMHD a grant in the amount of $648,199 to fund the Healthy Start initiative. This initiative will provide education and prevention services for women who are at risk for having low birth weight babies.

A $6,188,156 grant was awarded from HHS through DSHS to operate the Women, Infants and Children Project. The project provides nutritious foods and nutrition education to qualified pregnant, breastfeeding or postpartum women along with infants and children less than five years. The program serves approximately 48,100 participants each month.

A $97,600 grant was awarded from HHS to operate the Breast and Cervical Cancer Control Program. The program provides clinical breast examinations, self breast-exam instruction, and referral for cervical cancer examinations to low-income, uninsured women between the ages of 40-64 years.

A $129,649 grant was awarded from HHS through DSHS to augment support for the ongoing Title V Family Planning, a grant for $180,873 was awarded from HHS through DSHS to augment support for the ongoing Title X Family Planning, and a $357,628 grant was awarded from HHS through DSHS for the ongoing Title XX Family Planning Program. These programs provide a variety of medical services, including family planning.

CATEGORICAL GRANTS (Continued)

Public Health (Continued)

Public Health State Support Project	(HHS/DSHS)	$	1,881,528
Childhood Immunization Maintenance Project	(HHS/DSHS)		2,293,491
Steps to a Healthier San Antonio Program	(HHS/DSHS)		1,493,115
Healthy Start Initiative	(HHS/DSHS)		648,199
Women, Infants and Children (WIC) Project	(HHS/DSHS)		6,188,156
Breast and Cervical Cancer Control Program	(HHS/DSHS)		97,600
Family Planning Programs	(HHS/DSHS)		668,150
Total FY 2007 Awards		$	13,270,239

Recreation and Arts - $849,271

In fiscal year 2007, the City was awarded Recreation and Arts grants totaling $849,271 compared to $943,323 awarded to the City in the previous year. The Texas Health and Human Services Commission (HHSC) awarded grants in the amount of $815,144 received from the U.S. Department of Agriculture (USDA) to operate the Summer Food Service Project to procure lunch and snack rations for children age eighteen and below participating in the City's Summer Youth Recreation Support Program administered by the Parks and Recreation Department. The program served approximately 189,497 summer snacks and 191,533 lunches in conjunction with the Commission's traditional Recreation Services Program operating at ninety-four sites to eligible participants ages eighteen and under. The Texas Commission on the Arts (TCA) awarded a new $34,127 grant received from the National Endowments for the Arts (NEA) to the City's Office of Cultural Affairs. This grant supported the operations of five local art agencies.

Summer Food Service Project	(USDA/HHSC)	$	815,144
Operations for Local Art Agencies	(NEA/TCA)		34,127
Total FY 2007 Awards		$	849,271

Criminal Justice - $8,720,760

In fiscal year 2007, the City was awarded Criminal Justice grants totaling $8,720,760 compared to $4,368,621 awarded to the City in the previous year. The Police Department received a grant from the Department of Justice (DOJ) totaling $6,000,000 for the Public Safety Partnership & Community Policing Grant. The grant is for a computerized dispatch of 911 in conjunction with surrounding law enforcement agencies.

The DOJ also awarded the City High Intensity Drug Trafficking Area (HIDTA) grants. The HIDTA mission is to reduce drug trafficking in the San Antonio metropolitan area by instituting innovative narcotic enforcement investigations and the seizure of illegally obtained assets in an effort to reduce the profitability of narcotics trafficking. This strategy is designed to make the "business" of drug dealing unprofitable. Under this program, the City received a $1,944,701 grant for the Multi-Agency Drug Courier and Apprehension Task Force.

The Texas Department of Transportation (TxDOT) awarded the Police Department a grant totaling $90,000 received from the U.S. Department of Transportation (DOT) for the Click It or Ticket-STEP Program grant. The funds were spent to ensure compliance with seat belt and child safety seats laws.

CATEGORICAL GRANTS (Continued)

Criminal Justice (Continued)

The Police Department was additionally awarded grants for administrative support. A $19,504 grant was awarded from the DOJ for the Local Law Enforcement for the purchase of ballistic vests. A $112,654 grant was awarded from the Office of the Governor - Criminal Justice Division (CJD), entitled Project EASE. This grant provided services to victims of violent crimes who are deaf. The program is designed primarily as a collaborative effort in the community to address the issues of violence against women. A $255,537 grant was awarded from the DOJ for the Edward Byrne Memorial Formula Grant. This grant provides service to victims of sex crimes. A $71,256 grant was also awarded from the DOJ through CJD for Community Capacity Development Office. This Grant provides youth with opportunity to stay out of gangs.

The City Attorney's Office received a grant from the DOJ through CJD totaling $227,108 for the Early Intervention for Women Living in Domestic Violence Program. The program has expanded the domestic violence court at San Antonio's Municipal Court enabling more Class C domestic violence cases to be evaluated and prosecuted.

Public Safety Partnership & Community Policing	(DOJ)	$	6,000,000
San Antonio Multi-Agency Task Force	(DOJ)		1,944,701
Click It or Ticket STEP Program	(DOT/TxDOT)		90,000
Bulletproof Vest Partnership Program	(DOJ)		19,504
Project EASE	(DOJ/CJD)		112,654
Edward Byrne Memorial Formula Grant	(DOJ)		255,537
Community Capacity Development Office	(DOJ/CJD)		71,256
Domestic Violence Against Women	(DOJ/CJD)		227,108
Total FY 2007 Awards		$	8,720,760

Economic Development - $216,308

In fiscal year 2007, the City was awarded Economic Development Grants totaling $216,308 compared to $149,950 awarded to the City in the previous year. The U.S. Department of Defense (DOD) awarded the City a grant in the amount of $216,308 to operate the Procurement Technical Assistance for Business Firms Program. This program provides technical procurement assistance to businesses seeking to market their products and services to federal, state, and local governments.

Environmental Quality -$97,452

In fiscal Year 2007, the City was awarded Environmental Quality grants totaling $97,452 compared to $200,000 awarded to the City in the previous year. This Grant is a Solid Waste Management Assistance Grant, and the funds were used to implement a National Publication and Records Commission program.

CATEGORICAL GRANTS (Continued)

Emergency Management - $8,579,160

In fiscal year 2007, the City was awarded Emergency Management grants totaling $8,579,160 which compared to $8,557,687 awarded to the City in the previous year. In 2007, the City received grants in the amount of $7,373,585 to combat terrorism. The first grant awarded in the amount of $3,362,624 from the U.S Department of Homeland Security (DHS) through the Office of the Governor - Division of Emergency Management (DEM), was used to assist the City with homeland security readiness through training, drills, planning, equipment, and pharmaceutics. The second grant from DHS through DEM, in the amount of $175,534, was awarded and used to aid the City in reducing vulnerabilities of critical infrastructure and key resource sites. The third grant awarded from HHS through DSHS totaled $447,000, and was used to assist the City's effort towards the Cities Readiness Initiative. The fourth grant awarded in the amount of $3,388,427 was received from HHS through DSHS for the Public Health Emergency Preparedness Program for Bioterrorism Preparedness. An additional grant in the amount of $600,000 was awarded by the DOD through the U.S. Air Force (USAF) to the Public Center for Environmental Health for the Community Economic Adjustment Assistance Program. Funding from this grant was used to conduct scientific studies to determine the health impacts from exposures to environmental contamination that may have been experienced by residents near the former Kelly Air Force Base as well as monitor the Air Force's efforts to remediate contaminate. The United States Fire Administration (USFA) awarded $465,209 to assist firefighter training and purchase of equipment. The DHS through DEM awarded $140,366 to the San Antonio Fire Department to help plan for disasters.

Homeland Security Grant Programs	(DHS/DEM)	$	3,362,624
Homeland Security Grant Programs	(DHS/DEM)		175,534
Cities Readiness Initiative Progam	(HHS/DSHS)		447,000
Public Health Emergency Preparedness Programs	(HHS/DSHS)		3,388,427
Public Center for Environmental Health	(DOD/USAF)		600,000
United States Fire Administration	(DHS/USFA)		465,209
State Emergency Management Program	(DHS/DEM)		140,366
Total FY 2007 Awards		$	8,579,160

BLOCK GRANTS

During fiscal year 2007, the City received Block Grants from HUD under the Community Development Block Grant Program (CDBG) and the HOME Investment Partnership Programs (HOME). The City's Grants Monitoring and Administration Department administers and monitors the Block Grant Programs for expenditure in accordance with HUD regulations and guidelines. A program expenditure plan, which is reviewed and approved by HUD, is adopted by the City Council for each annual Block Grant Entitlement. Additional information on the Block Grant Entitlements awarded to the City for fiscal year 2007 is as follows:

Community Development Block Grant Program - Year 32 (2006-2007) - $14,830,969

Since 1977, the City has received annual entitlements from HUD for the CDBG Program under Title I of the Housing and Community Act of 1974. The aim of the program is to assist cities in the development of viable urban communities, including adequate housing and a suitable living environment, and to assist in expanding economic opportunities principally for persons of low and moderate income. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $14,830,969 for the 32nd entitlement year of the program. The previous year's annual entitlement grant was $14,846,217.

BLOCK GRANTS (Continued)

HOME Investment Partnership Act (HOME) Program - Year 15 (2006-2007) - $6,670,354

Fiscal Year 2007 was the 15th year the City received an annual entitlement from HUD for the HOME Program under Title II of the National Affordable Housing Act of 1990. The objective of the program is to address critical local housing needs. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $6,670,354 for the 15th entitlement year of the program. The previous year's entitlement grant was $6,724,512.

COGNIZANT AGENCY

The Single Audit Act designates the selection of a Federal "cognizant" agency for each grantee's Single Audits. The U.S. Department of Health and Human Services (HHS), Office of Inspector General was designated as the Federal cognizant agency for the City of San Antonio beginning for the fiscal year ending 2007. The City's prior cognizant agency was the U. S. Department of Housing and Urban Development (HUD).

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 any 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 197 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 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 past years, the City has been the recipient of Federal grants in support of acquisition of facilities, construction of public improvements, and operation of programs which the City would have been unable to undertake from local resources. These Federal 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 of the City Departments who administer these grant programs. Additionally, I would also like to express my appreciation to the staff of the Finance Department, particularly the staff of the accounting 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 Federal 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:			
Social Services	$ 99,003,298	$ 93,015,869	$ 5,987,429
Air Transportation	15,756,739	7,878,364	7,878,375
Interlibrary Services	834,555	1,074,143	(239,588)
Public Health	13,270,239	15,808,171	(2,537,932)
Recreation and Arts	849,271	943,323	(94,052)
Criminal Justice	8,720,760	4,368,621	4,352,139
Economic Development	216,308	149,950	66,358
Environmental Quality	97,452	200,000	(102,548)
Emergency Management	8,579,160	8,557,687	21,473
Total Categorical Grants	$ 147,327,782	$ 131,996,128	$ 15,331,654
Block Grants:			
Community Development Block Grant - Year 32 FY 2007	$ 14,830,969	$ 14,846,217	$ (15,248)
HOME Program Block Grant - Year 15 FY 2007	6,670,354	6,724,512	(54,158)
Total Block Grants	$ 21,501,323	$ 21,570,729	$ (69,406)
Grand Totals	$ 168,829,105	$ 153,566,857	$ 15,262,248

GRANTING AGENCY AND PROGRAM ACRONYMS

AACOG	-	Alamo Area Council of Governments
AALS	-	Alamo Area Library System
AWD	-	Alamo Workforce Development, Inc.
CCDS	-	Child Care Delivery System
CDBG	-	Community Development Block Grant
FAA	-	Federal Aviation Administration
HIDTA	-	High Intensity Drug Trafficking Area
HOME	-	Home Investment Partnerships Program
IMLS	-	Institute of Museum and Library Services
NEA	-	National Endowment for the Arts
CJD	-	Office of the Governor - Criminal Justice Division
DEM	-	Office of the Governor - Division of Emergency Management
SAMHD	-	San Antonio Metropolitan Health District
TCA	-	Texas Commission on the Arts
DADS	-	Texas Department on Aging and Disability Services
DSHS	-	Texas Department of State Health Services
TDHCA	-	Texas Department of Housing and Community Affairs
TxDOT	-	Texas Department of Transportation
TEA	-	Texas Education Agency
HHSC	-	Texas Health and Human Services Commission
TSLAC	-	Texas State Library and Archives Commission
TWC	-	Texas Workforce Commission
TSA	-	Transportation Security Administration
USAF	-	U.S. Air Force
DOA	-	U.S. Department of Agriculture
DOD	-	U.S. Department of Defense
DOE	-	U.S. Department of Education
HHS	-	U.S. Department of Health and Human Services
DHS	-	U.S. Department of Homeland Security
HUD	-	U.S. Department of Housing and Urban Development
DOJ	-	U.S. Department of Justice
DOT	-	U.S. Department of Transportation
USFA	-	U.S. Fire Administration

City of San Antonio, Texas

Financial Section

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 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.

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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

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.

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

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

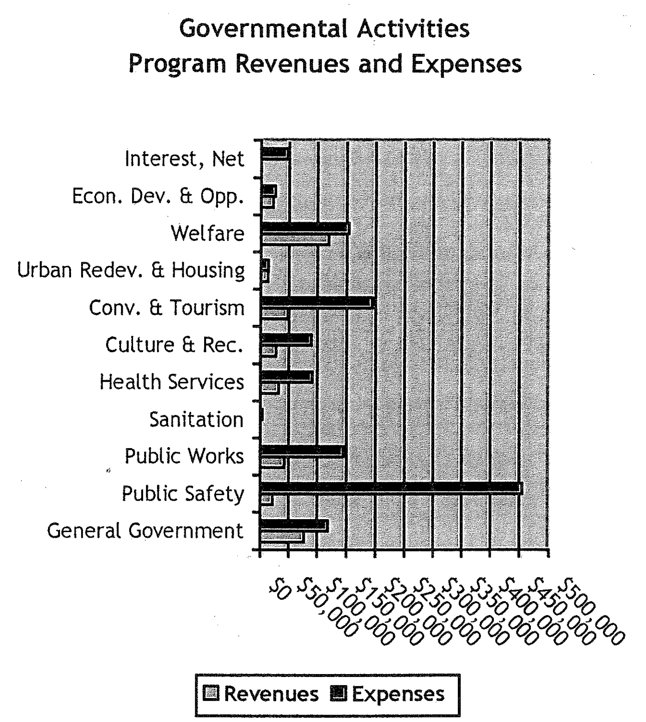
* Certain amounts presented in the prior year data have been restated to correct errors as discussed in Note 17, Prior Period Restatement; and reclassified in order to be consistent with the current year's presentation.

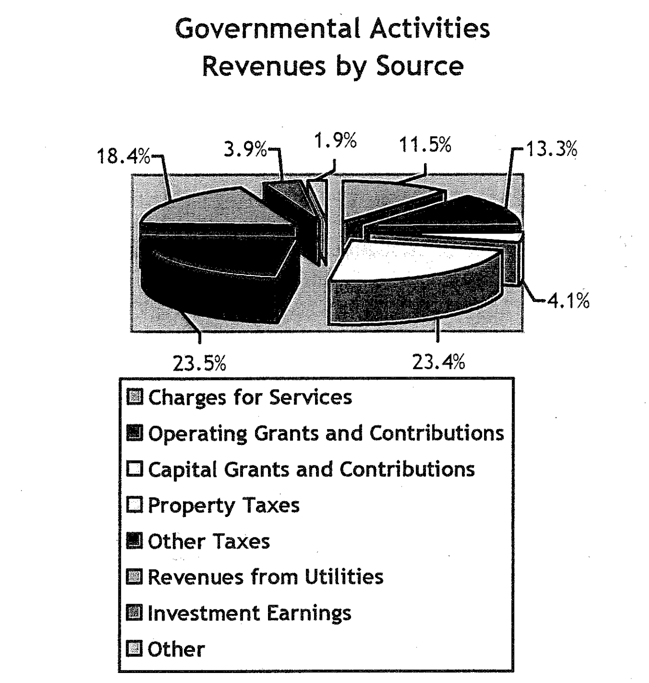
Governmental Activities

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.

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

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





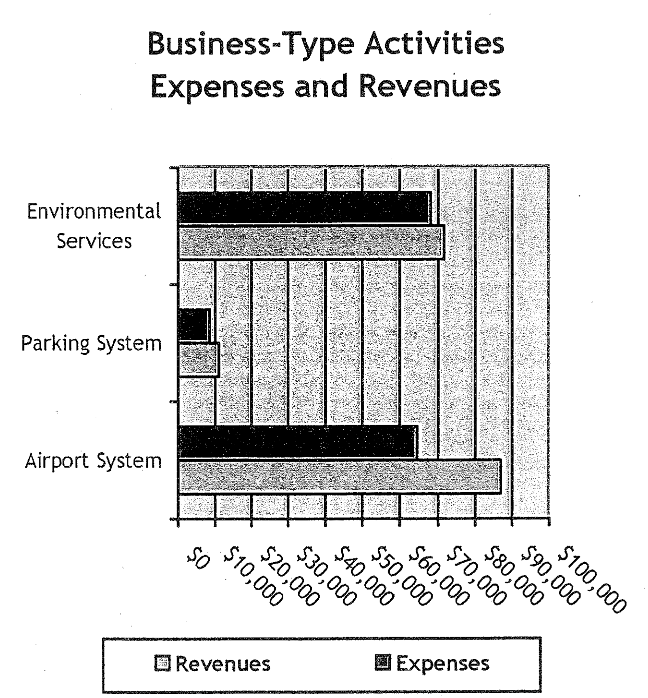
Governmental Activities increased the City's net assets by $54,065. The reason for the change is as follows:

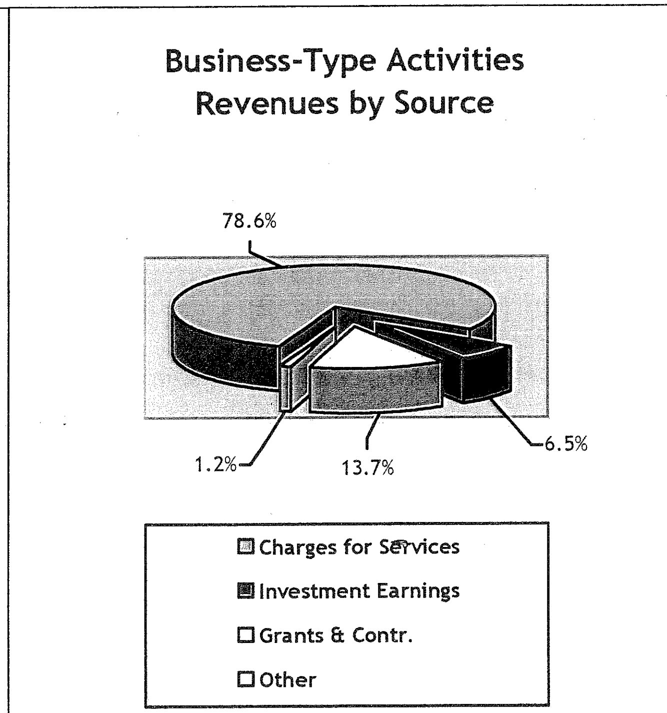
- Grants and Contribution revenues increased by $35,305 primarily as a result of $8,729 in additional contributions for the Convention Center Finance Corp., $6,808 in additional grants and contributions related to the Community Development Program, $6,285 in additional contributions for capital projects, 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.

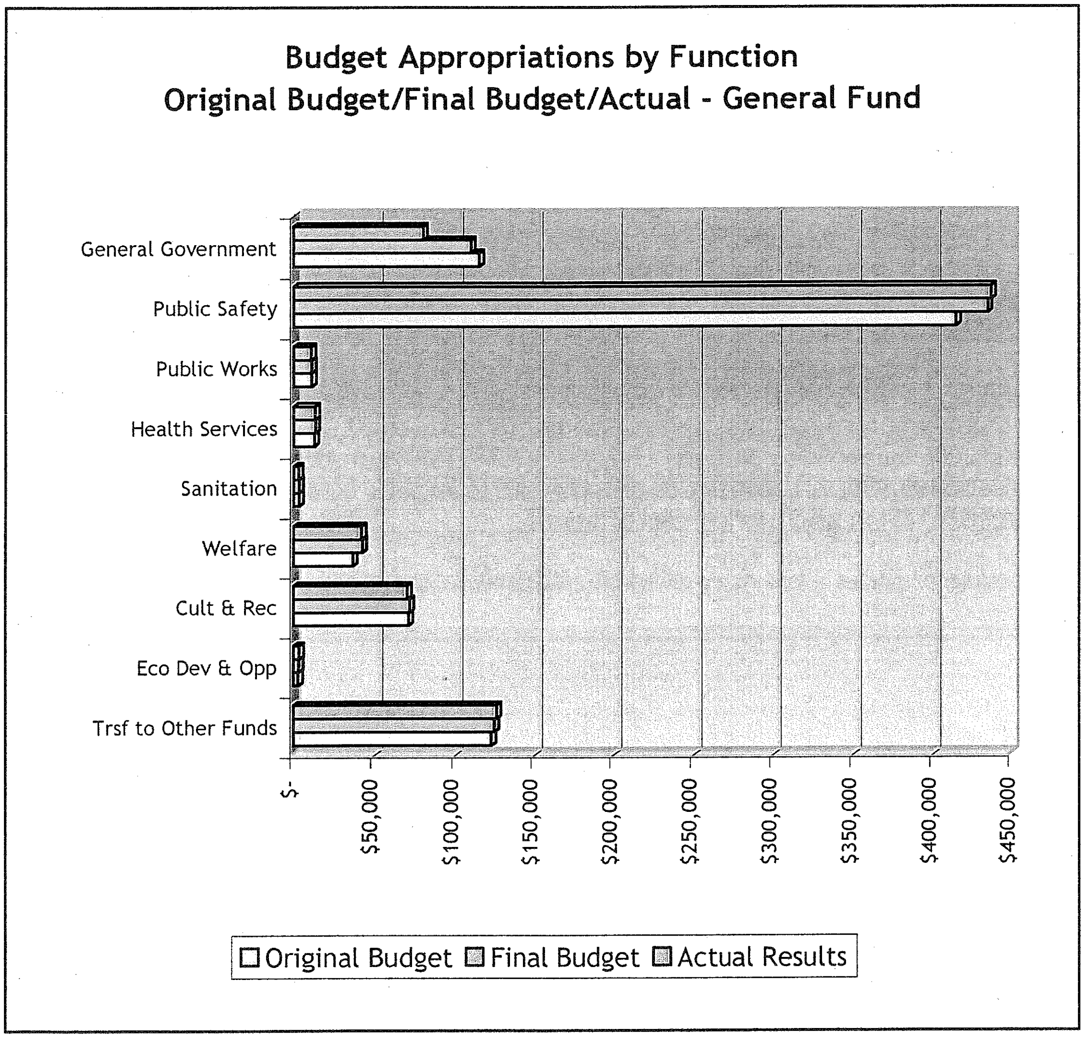
Final budgeted appropriations for the General Fund were $805,861, while actual expenditures were $785,213 creating a positive variance of $20,648. Significant variances are as follows:

- 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.

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

- 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

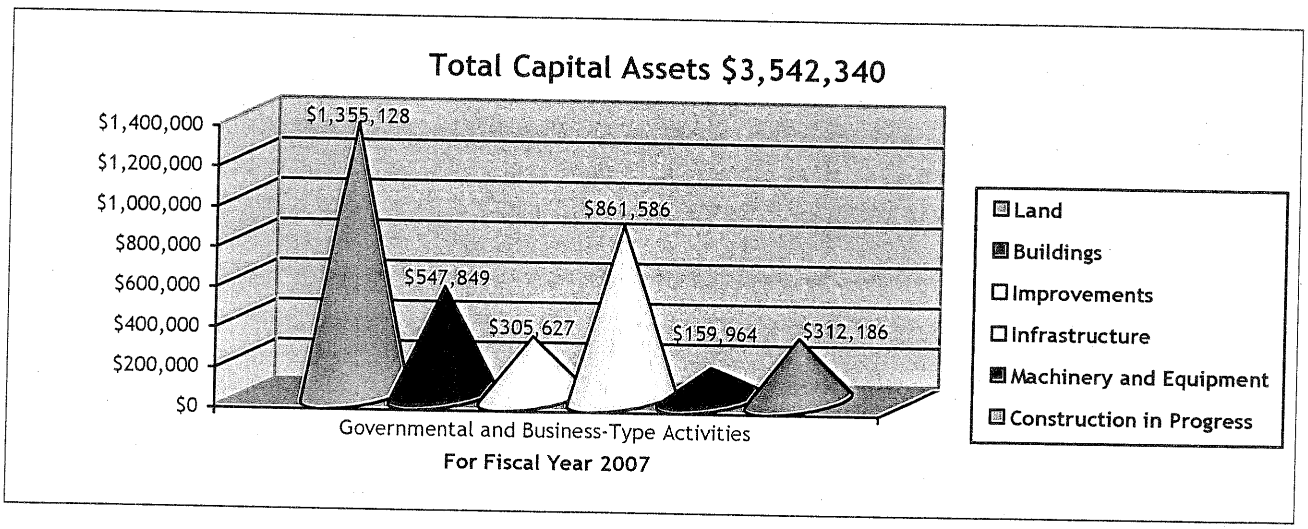
The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007 amounts to $3,549,809 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total 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.

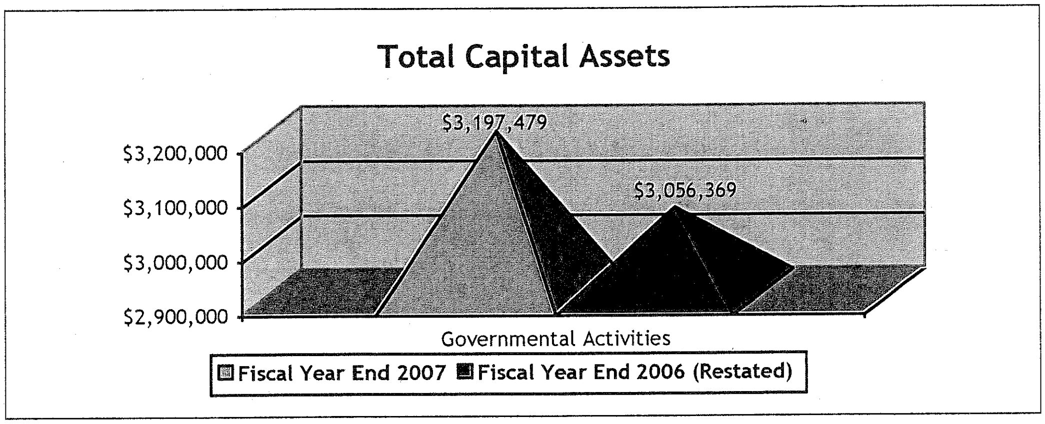
The following schedule provides a summary of the City's capital assets:

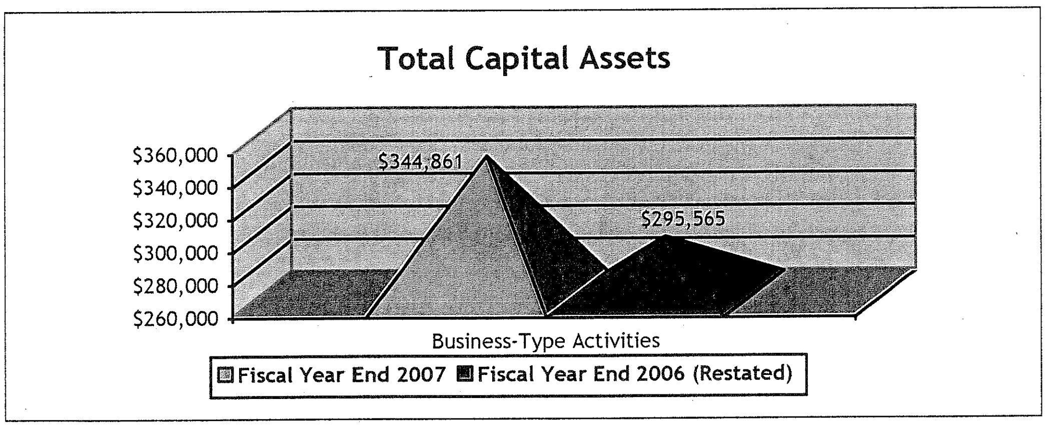


City of San Antonio, Texas - 10 - Amounts are expressed in thousands

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, Texas - 11 - Amounts are expressed in thousands

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.

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

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 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 - 13 - Amounts are expressed in thousands

City of San Antonio, Texas

Basic Financial Statements

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

	PRIMARY GOVERNMENT			DISCRETELY PRESENTED
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
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)

		PROGRAM REVENUES		
FUNCTION/PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	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.

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.

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.

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.

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.

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Report on Federal 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.

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.

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.

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.

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.

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.

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
Federal Grants "Single Audit Report"
Year Ended September 30, 2007

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year Ended September 30, 2007

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Summary of Cash and Cash Equivalents and Investments (Continued)

Summary of Investments

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Funds	$ 1,065,294	$ 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.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

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

Amounts are expressed in thousands

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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Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 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

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities 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 28th and August 28th. The Pension Fund pays interest every quarter on February 28th, May 28th, August 28th and November 28th. The contracts are effective as of February 28, 2007. The swap is subject to counterparty risk in the event that the counterparties are unable to pay the guaranteed amount because of financial insolvency. The amount at risk would be the difference between the interest using 30 day LIBOR on $27,000 and the fixed 5.2% interest on $27,000 for the same period. Management of the Pension Fund considers the possibility of loss due to the failure of the counterparties to be remote. A 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

Amounts are expressed in thousands

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%

Amounts are expressed in thousands

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%	

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by 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%

Amounts are expressed in thousands

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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Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 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.

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 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

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy

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

Plant	Generating Units	Type	Plant	Generating Units	Type
J.T. Deely	2	Coal	V.H. Brauning	3	Gas
J.K. Spruce	1	Coal	W.B. Tuttle	4 [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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Amounts are expressed in thousands

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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Amounts are expressed in thousands

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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Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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
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.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding as of September 30, 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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Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 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.

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

	Beginning Balance	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.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

Compensated Absences

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

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

Conduit Debt Obligations (Continued)

To provide for the acquisition and construction of certain airport facilities, the City has issued Special 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.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 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.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 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

Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate 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:

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

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

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 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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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The 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

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 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; 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

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Landfill Postclosure Care Costs

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

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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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Amounts are expressed in thousands

Note 13 Interfund Transfers

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

Summary Table of Interfund Transfers
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)

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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

Amounts are expressed in thousands

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.

Amounts are expressed in thousands

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 Federal Grants “Single Audit Report”

Year Ended September 30, 2007

City of San Antonio, Texas

Required Supplementary Information Other Than MD&A (Unaudited)

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
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
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	2007 ACTUAL	2007 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	2007 ACTUAL	2007 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	2007 ACTUAL	2007 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
Federal Grants "Single Audit Report"
Year Ended September 30, 2007

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 Federal Grants "Single Audit Report"

Year Ended September 30, 2007

City of San Antonio, Texas

Supplemental Information

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

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:				
Pass Through - Texas Department of State Health Services:				
Special Supplemental Nutrition Food Program for Women, Infants and Children:				
WIC 2000-2001	10.557	7460020708-01-18	26-016040	$ (12,881)
WIC 2001-2002	10.557	7460020708-02-16	26-016051	(216,601)
WIC 2002-2003	10.557	7460020708-03-07	26-016056	(363,947)
WIC 2003-2004	10.557	7460020708-04-10	26-016065	24,504
WIC 2004-2005	10.557	7460020708-2005	26-016101	34,464
WIC 2005-2006	10.557	7460020708-2006	26-016110	787,837
WIC 2006-2007	10.557	2007-020877-001	26-016108	5,318,240
WIC 2007-2008	10.557	2008-024690-001	26-016115	2,792
Total Special Supplemental Nutrition Food Program for Women, Infants and Children				$ 5,574,408
Pass Through - Texas Health and Human Services Commission:				
Summer Food Service Program for Children:				
Summer Food Program 2002	10.559	TX015107	26-017102	$ 14,063
Summer Food Program 2007	10.559	75J8005	26-020003	630,882
Total Summer Food Service Program for Children				$ 644,945
Pass Through - Texas Forest Service:				
Cooperative Forestry Assistance:				
Remote Sensing/Develop a Tree Inventory	10.664	011006	26-007011	$ (28,015)
Pass Through - National Resource Conservation Service:				
Watershed Protection and Flood Prevention:				
Flood Debris Clean-Up 2002	10.904	6974423554	26-021002	$ 756,935
Total U.S. Department of Agriculture				$ 6,948,273
U.S. Department of Defense:				
Direct Programs:				
Procurement Technical Assistance for Business Firms:				
Procurement Outreach Program 2002	12.002	DLA8AT-02-020012	26-032011	$ (11,993)
Procurement Outreach Program 2003	12.002	DLA8AT-02-0200	26-032014	(16,070)
Procurement Technical Assistance Center	12.002	SP48000420366	26-032016	(3,953)
PTAC 2006	12.002	06C4TX14000000	26-032019	31,322
PTAC 2007	12.002	SP4800-04-2-036	26-032000	96,406
Total Procurement Technical Assistance for Business Firms				$ 95,712
Community Economic Adjustment: *				
Public Center Environmental Hlth 2001-2002	12.600	FY02	26-032012	$ (8)
Public Center Environmental Hlth 2002-2003	12.600	FY03	26-032013	41
Public Center Environmental Hlth 2006-2007	12.600	PCEH FY07	26-032017	390,410
Total Community Economic Adjustment				$ 390,443
Subtotal U.S. Department of Defense				$ 486,155

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Defense (Continued):				
Direct Programs (Continued):				
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation:				
Office of Military Transformation	12.607	RA06185-07-01	26-032000	$ 171,727
Total U.S. Department of Defense				$ 657,882
U.S. Department of Housing and Urban Development:				
Direct Programs:				
Housing Counseling Assistance Program:				
Housing Counseling Program 2005-2006	14.169	HC05-0898-070	26-054125	$ 66,936
Housing Counseling Program 2006-2007	14.169	HC05-0898-074	26-054130	61,557
Total Housing Counseling Assistance Program				$ 128,493
Community Development Block Grants/ Entitlement Grants Cluster: *				
Community Development Program - Multi		B93MC480508	28-099000	$ (488,760)
Community Development Program - 19th Year	14.218	B93MC480508	28-019000	(10,779)
Community Development Program - 20th Year	14.218	B94MC480508	28-020000	(8,210)
Community Development Program - 21st Year	14.218	B95MC480508	28-021000	28,160
Community Development Program - 22nd Year	14.218	B96MC480508	28-022000	(35,605)
Community Development Program - 23rd Year	14.218	B97MC480508	28-023000	(41,418)
Community Development Program - 24th Year	14.218	B98MC480508	28-024000	170,679
Community Development Program - 25th Year	14.218	B99MC480508	28-025000	630,693
Community Development Program - 26th Year	14.218	B00MC480508	28-026000	(42,753)
Community Development Program - 27th Year	14.218	B01MC480508	28-027000	399,263
Community Development Program - 28th Year	14.218	B02MC480508	28-028000	737,726
Community Development Program - 29th Year	14.218	B03MC480508	28-029000	3,176,765
Community Development Program - 30th Year	14.218	B04MC480508	28-030000	5,319,450
Community Development Program - 31st Year	14.218	B05MC480508	28-031000	1,514,919
Community Development Program - 32nd Year	14.218	B06MC480508	28-032000	7,220,887
Community Development Block Grants_Section 108 Loans	14.248	MC480508	27-040000	11,603,684
Total Community Development Block Grants/ Entitlement Grants Cluster				$ 30,174,701
Urban Development Action Grants:				
UDAG Houston Street Bridge	14.221	None	26-054106	$ 974,500
Emergency Shelter Grants Program:				
ESG 2002-2004	14.231	S02MC480508	26-054108	$ (4,015)
ESG 2003-2005	14.231	S03MC480508	26-054110	(32,338)
ESG 2004-2006	14.231	S04MC480508	26-054117	3,306
ESG 2005-2007	14.231	S05MC480508	26-054123	208,480
ESG 2006-2008	14.231	S06MC480508	26-054129	431,740
Total Emergency Shelter Grants Program				$ 607,173
Subtotal U.S. Department of Housing and Urban Development				$ 31,884,867

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development (Continued):					
Direct Programs (Continued):					
Supportive Housing Program:	*				
SHP 2000		14.235	TX59B000	26-054103	$ 120,019
SHP 2001		14.235	TX59B100	26-054105	(139,691)
SHP 2002		14.235	TX59B200	26-054112	293,137
SHP 2003		14.235	TX59B300	26-054115	544,094
SHP 2004		14.235	TX59B400	26-054122	60,991
SHP 2005		14.235	TX59B500	26-054127	4,071,761
SHP 2006		14.235	TX59B600	26-054132	5,641
Total Supportive Housing Program					$ 4,955,952
HOME Investment Partnerships Program:	*				
HOME Program Grant - Multi		14.239	M01MC480508	25-099000	$ (66,682)
HOME Program Grant - 2nd Year		14.239	M93MC480508	25-002000	208
HOME Program Grant - 8th Year		14.239	M99MC480508	25-008000	11,353
HOME Program Grant - 9th Year		14.239	M00MC480508	25-009000	38,418
HOME Program Grant - 10th Year		14.239	M01MC480508	25-010000	(56,630)
HOME Program Grant - 11th Year		14.239	M02MC480508	25-011000	484,149
HOME Program Grant - 12th Year		14.239	M03MC480508	25-012000	699,685
HOME Program Grant - 13th Year		14.239	M04MC480508	25-013000	845,811
HOME Program Grant - 14th Year		14.239	M05MC480508	25-014000	2,444,089
HOME Program Grant - 15th Year		14.239	M06MC480508	25-015000	2,403,959
Total HOME Investment Partnerships Program					$ 6,804,360
Housing Opportunities for Persons with AIDS:					
HOPWA 2000		14.241	TXH00F005	26-016040	$ (363)
HOPWA 2001		14.241	TXH01F005	26-016045	(7,267)
HOPWA 2002		14.241	TXH02F005	26-054109	(16,816)
HOPWA 2003		14.241	TXH03F005	26-054111	(3,796)
HOPWA 2004		14.241	TXH04F005	26-054116	12,241
HOPWA 2005		14.241	TXH05F005	26-054124	100,104
HOPWA 2006		14.241	TXH06F005	26-054128	909,130
Total Housing Opportunities for Persons with AIDS					$ 993,233
Fair Housing Initiatives Program:					
Fair Housing Initiatives Program 1998-1999		14.408	HC99-0898-040	26-054084	$ (5,934)
Fair Housing Initiatives Program 2005-2006		14.408	FH400G05011	26-054126	15,316
Total Fair Housing Initiatives Program					$ 9,382
Lead-Based Paint Hazard Control in Privately-Owned Housing:					
Lead-Based Paint Hazard Program 1999-2002		14.900	TXLHR012498	26-054093	$ (221)
Lead-Based Paint Monitoring 2004-2007		14.900	TXLHR0	26-054118	304,501
Total Lead-Based Paint Hazard Control in Privately-Owned Housing					$ 304,280
Subtotal U.S. Department of Housing and Urban Development					$ 13,067,207

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development (Continued)				
Pass Through - Texas Health and Human Services Commission:				
Empowerment Zones Program:				
Enterprise Communities	14.244	G*9501TXECUR	26-054076	$ 133,489
Total U.S. Department of Housing and Urban Development				$ 45,085,563
U.S. Department of the Interior:				
Pass Through - Texas Historical Commission:				
Historic Preservation Fund Grant-In Aid:				
Training and Travel - CLG Grant	15.904	48-03-18244.041	26-006018	$ (400)
Training and Travel - THC Grant	15.904	TX-06-029	26-006020	887
Total Historic Preservation Fund Grant-In Aid				$ 487
Pass Through - Texas Department of Parks and Wildlife:				
Outdoor Recreation-Acquisition, Development and Planning:				
Leon Creek Recreational Trails Project	15.916	43195	26-052037	$ (10,989)
Urban Parks and Recreation Recovery Program:				
Lincoln Park Pool and Playground Rehabilitation	15.919	48-CYT-6090-01-01	26-052039	(8,928)
Stone Oak Park Improvements	15.919	None	26-052042	(100,000)
Total Urban Parks and Recreation Recovery Program				$ (108,928)
Total U.S. Department of the Interior				$ (119,430)
U.S. Department of Justice:				
Pass-Through - Office of the Governor, Criminal Justice Division:				
Juvenile Accountability Incentive Block Grants:				
JABG START 2005-2006	16.523	JB01J201330107	26-055328	(19,895)
JABG START 2006-2007	16.523	JB05J201330108	26-055332	41,343
Juvenile Accountability Incentive 2005-2006	16.523	JB01J201330105	26-055316	(4,686)
Juvenile Accountability Incentive 2006-2007	16.523	JB01J201330106	26-055321	40
Total Juvenile Accountability Incentive Block Grants				$ 16,802
Victims of Crime Act:				
Crisis Assistance Team Administration 2002-2003	16.575	WF02V301394905	26-055315	$ 208
Crisis Assistance Team Administration 2003-2004	16.575	WF02V301394906	26-055319	6,266
Crisis Assistance Team Administration 2004-2005	16.575	WF02V301394907	26-055322	(29,028)
Crisis Assistance 2006-2007	16.575	13949-09	26-055331	76,795
Project EASE 2003-2004	16.575	VA02V301621102	26-055317	(13,095)
Project EASE 2004-2005	16.575	162110220042005	26-055320	236
Project EASE 2005-2006	16.575	16211-04	26-055324	281
Project EASE 2006-2007	16.575	16211-05	26-055329	51,936
Project EASE 2007-2008	16.575	VA07V301621106	26-055338	15,565
Total Victims of Crime Act				$ 109,164
Subtotal U.S. Department of Justice				$ 125,966

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Justice (Continued):				
Pass-Through - Office of the Governor, Criminal Justice Division (continued):				
Violence Against Women Formula Grants:				
Early Intervention for Women 2003-2004	16.588	WF03V301394806	26-055318	41,035
Early Intervention for Women 2004-2005	16.588	WF04V301394807	26-055323	(36,860)
Early Intervention for Women 2005-2006	16.588	WF05V301394908	26-055333	(119,076)
Early Intervention for Women 2006-2007	16.588	WF06V301394809	26-055330	147,859
Early Intervention for Women 2007-2008	16.588	WF07V301394810	26-055340	15,198
Total Violence Against Women Formula Grants				$ 48,156
Direct Programs:				
National Institute of Justice Research, Evaluation, and Development Project Grants:				
Adam Program 2001-02	16.560	OJP2001C003	26-028060	$ (616)
Edward Byrne Memorial Formula Grant Program:				
JAG Grant 2005-2009	16.579	2005-DJ-BX0602	26-028078	$ 163,341
JAG Grant 2006-2010	16.579	2006-DJ-BX-0358	26-028080	131,398
HIDTA Initiative San Antonio 2004	16.579	I4PSSP700Z	26-028074	$ 36,333
HIDTA Initiative San Antonio 2005	16.579	I5PSSP700Z	26-028077	149,584
HIDTA Initiative San Antonio 2006	16.579	I6PSSP700Z	26-028079	784,644
HIDTA Initiative San Antonio 2007	16.579	I3PSSP700Z	26-028081	1,028,933
Total Edward Byrne Memorial Formula Grant Program				$ 2,294,233
Local Law Enforcement Block Grant Program:				
Local Law Enforcement 2001-2003	16.592	2001LBBX2712	26-028063	$ (10,069)
Local Law Enforcement 2002-2004	16.592	2002LBBX2575	26-028068	(8,532)
Total Local Law Enforcement Block Grant Program				$ (18,601)
Public Safety Partnership and Community Policing Grants:				
Universal Hiring Program 2001	16.710	2001ULWX0031	26-028061	$ (77,541)
Methamphetamine Grant 2004	16.710	2004CKWX0402	26-028076	25,766
Total Public Safety Partnership and Community Policing Grants				$ (51,775)
Federal Confiscated Property:				
Federal Account	16.xxx	N/A	29-039000	$ 114,971
HIDTA - DPS Federal	16.xxx	N/A	29-045000	7,850
HIDTA - Federal Account	16.xxx	N/A	29-046000	285,038
Total Federal Confiscated Property				$ 407,859
Total U.S. Department of Justice				$ 2,805,222

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Labor:				
Direct Programs:				
WIA Dislocated Workers:				
National Emergency Grant 2004-2005	17.260	CCDS2003001	26-039017	$ 157,777
National Emergency Grant	17.260	CCDS2003001	26-039018	(111,281)
Total WIA Dislocated Workers				$ 46,496
Youth Opportunity Grants:				
Youth Opportunity Project-DCI	17.263	YOG 2001003	26-029064	$ (616,209)
YO Project-DCI Proj	17.263	YOG 2001004	26-029065	(42,838)
DCI Support Proj	17.263	YOG 2001005	26-029066	(19)
Year 6 YO! Administration	17.263	YOG 2001006	26-029067	158,923
Total Youth Opportunity Grants				$ (500,143)
Total U.S. Department of Labor				$ (453,647)
U.S. Department of Transportation:				
Direct Programs:				
Airport Improvement Program:	*			
Airport Remain Over Night Apron	20.106	348019241	26-058073	$ 1,211,199
Environmental Impact Stment-Sa Int-Airfie	20.106	348019244	26-058079	199,036
Sky Place Drainage	20.106	34801924603	26-058081	510,671
Terminal and Airfield Security 44-02	20.106	34801924402	26-058082	257,693
Residential Acoustical Program 45-03	20.106	34801924503	26-058083	8,089,988
Airport Airfield Ltg 48-04	20.106	34801924804	26-058087	71,354
Airport Apron Rehab 50-05	20.106	FAA3-48-0192050	26-058088	2,217,142
Taxiway R Extension 52-06	20.106	FAA3-48-019252006	26-058090	707,843
Runway Safety Action Team 52-06	20.106	FAA3-48-019252006	26-058096	94,749
Total Airport Improvement Program				$ 13,359,675
Pass Through - Texas Department of Transportation:				
National Motor Carrier Safety:				
Commercial Motor Vehicle Safety Step	20.218	584XXF6061	26-059199	$ 40
Commercial Motor Vehicle Safety Step	20.218	583XXF6106	26-059194	(75,962)
Total National Motor Carrier Safety				$ (75,922)
Recreational Trails Program:				
MPO Hike and Bike 2006-2007	20.219	NONE	26-059213	$ 92,299
Federal Transit-Metropolitan Planning Grants:				
Transportation Study Office 1997-98	20.505	PL 011(21)	26-059182	$ (102,171)
Subtotal U.S. Department of Transportation				$ 13,273,881

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM	FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Transportation (Continued):				
Pass Through - Texas Department of Transportation (Continued):				
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants:				
DWI Step Program 2001-2002	20.601	2XXF6015	26-059188	$ 15,976
DWI Step Program 2002-2003	20.601	583XXF6042	26-059193	(3,161)
DWI Step Program 2003-2004	20.601	583XXF6050	26-059200	(89)
DWI Step Program 2004-2005	20.601	585XXF6043	26-059205	19,053
DWI Step Program 2005-2006	20.601	586XXF6004	26-059207	19,431
DWI Step Program 2006-2007	20.601	2659213	26-056062	446,408
Click It Or Ticket 2004	20.601	583XXF6154	26-059202	(764)
Click It Or Ticket 2005	20.601	OJP2001C003	26-059208	(86,559)
Click It Or Ticket 2007	20.601	587XXF6209	26-059216	89,331
Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant				$ 499,626
Total U.S. Department of Transportation				$ 13,773,507
National Endowment for the Arts:				
Pass Through - Texas Commission on the Arts:				
Promotion of the Arts - Partnership Agreements:				
TCA Decentralized Program 2006-2007	45.025	07-28115	26-005138	$ 34,127
Total National Endowment for the Arts				$ 34,127
Institute of Museum and Library Services:				
Pass Through - Texas State Library and Archives Commission:				
Grants to States:				
Library Sys Svcs-State Grant 2001-2002	45.310	470-02010	26-018113	$ (1,564)
Library Sys Svcs-State Grant 2002-2003	45.310	470-03010	26-018117	(11,816)
Library Sys Svcs-State Grant 2003-2004	45.310	470-04010	26-018121	1,550
Library Sys Svcs-State Grant 2004-2005	45.310	470-05010	26-018124	(17,466)
Interlibrary Loan Services 2002-2003	45.310	771-03045	26-018118	(8,914)
Interlibrary Loan Services 2003-2004	45.310	771-04045	26-018120	2,257
Interlibrary Loan Services 2004-2005	45.310	771-05045	26-018125	2,915
Interlibrary Loan Services 2005-2006	45.310	771-06045	26-018128	8,913
Interlibrary Loan Services 2006-2007	45.310	771-07045	26-018133	245,344
Interlibrary Loan Services 2007-2008	45.310	771-08045	26-018139	15,606
Library System Operation 2005-2006	45.310	470-06010	26-018129	7,323
Library System Operation 2006-2007	45.310	470-07010	26-018134	551,116
Library System Operation 2007-2008	45.310	470-08010	26-018138	26,046
Tech Assist Negotiated Grant 2003-2004	45.310	476-04020	26-018122	(358)
Tech Assist Negotiated Grant 2006-2007	45.310	476-07020	26-018132	69,982
Total Grants to States				$ 890,934
Total Institute of Museum and Library Services				$ 890,934
Environmental Protection Agency:				
Direct Programs:				
Brownfield Pilots Cooperative Agreements:				
Brownfield Petroleum Assessment Grant	66.818	BF-97675801-0	26-010002	$ 69,455
Total Environmental Protection Agency				$ 69,455

* Major Program

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Federal Emergency Management Agency:				
Pass Through Texas Department of Public Safety:				
Flood BuyOut Program 1998:				
Flood BuyOut Program 1998 Phase II	83.XXX	UN32C1	26-056040	$ 23,011
Flood BuyOut Program 1998 Phase III	83.XXX	UN32E03A	26-056052	(67,419)
Total Flood BuyOut Program 1998				$ (44,408)
Cooperating Technical Partners:				
Rosillo Creek Watershed	83.555	EMT2001CA008	26-056041	$ 75,000
Pre-Disaster Mitigation:				
Pre-Disaster Mitigation Grant	83.557	PDM02002	26-056048	$ 9,933
Total Federal Emergency Management Agency				$ 40,525
Department of Education:				
Pass Through - Texas Education Agency:				
Adult Education - Basic Grants to State:				
English Literacy/Civics Education 2005-2006	84.002	SASA31706	26-041005	$ 4,098
English Literacy/Civics Education 2006-2007	84.002	SASA31707	26-041006	72,475
English Literacy/Civics Education 2007-2008	84.002	SASA31708	26-041007	44,971
Total Adult Education - Basic Grants to State				$ 121,544
Total Department of Education				$ 121,544
National Historical Publications and Records Commission:				
Direct Program:				
National Historical Publications and Records Grants:				
Archival Records Program	89.003	NAR07RA1000907	26-019001	$ 1,670
Total National Historical Publications and Records Commission				$ 1,670
U.S. Department of Health and Human Services:				
Pass Through - Alamo Area Council of Governments:				
Aging Cluster:				
Special Program for the Aging - Title III, Part B - Services and Senior Centers:				
Supportive Srvs for the Elderly 2003-2004	93.044	COSA 03 SST	26-011067	$ 22,861
SSEP Supportive Service for Elderly 2005-2006	93.044	COSA 05 SST	26-011073	56,289
Total Special Program for the Aging - Title III, Part B - Services and Senior Centers				$ 79,150
Special Program for the Aging - Title III, Part C - Nutrition Services:				
CNP 2002-2003	93.045	COSA 03 NS	26-011066	$ 43,970
CNP 2003-2004	93.045	COSA 04 CNP	26-011068	(327,654)
CNP 2004-2005	93.045	COSA 05 NS	26-011070	(608,180)
CNP 2005-2006	93.045	COSA 06 NS	26-011074	128,269
CNP Evidence Based Prevention 2005-2006	93.045	AOA 0307C	26-011075	(324)
CNP 2006-2007	93.045	COSA 07 NS	26-011076	1,421,959
SSEP Supportive Service for Elderly 2006-2007	93.045	COSA 06 SST	26-011077	277,883
Total Special Program for the Aging - Title III, Part C - Nutrition Services				$ 935,923
Total Aging Cluster				$ 1,015,073
Subtotal U.S. Department of Health and Human Services				$ 1,015,073

* Major Program

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U.S. Department of Health and Human Services (Continued)				
Pass Through - Texas Department of State Health Services:				
Public Health Emergency Preparedness:				
PHEP Program 2005-2006	93.069	7460020708 2006	26-016110	$ 1,977,254
Pass Through-Texas Commission on Alcohol and Drug Abuse:				
Grants for Residential Treatment Programs for Pregnant and Postpartum Women:				
Maternal Residential Treatment Project	93.101	100302000	26-015013	$ (108,495)
Abstinence Education Program :				
Abstinence Education Program 2000-2001	93.235	7460020708019	26-016040	$ (1,189)
Pass Through-Bexar County:				
HIV Emergency Relief Formula Grants:				
Ryan White Title I Dental	93.915	None	26-063001	$ (15,495)
Ryan White Title I Admin	93.915	None	26-063002	(34,811)
Ryan White Title I Planning	93.915	None	26-063003	(3,305)
Ryan White Title I Supplemental Dental	93.915	None	26-063004	(19,459)
Ryan White Title I Dental Clinic	93.915	None	26-063005	(693)
Ryan White Title I Dental Clinic	93.915	None	26-063006	(13,137)
Ryan White Title I Supportive Service	93.915	None	26-063007	(52)
Ryan White Title I Dental Clinic	93.915	None	26-063008	(30,623)
Ryan White Title I Dental Clinic	93.915	None	26-063009	(1,623)
Total HIV Emergency Relief Formula Grants				$ (119,198)
Pass Through-Texas Department of State Health Services:				
HIV Care Formula Grants:				
Ryan White Title II	93.917	74600207080122	26-016040	$ (182,030)
Ryan White Title II	93.917	74600207080221	26-016045	7,633
Total HIV Care Formula Grants				$ (174,397)
Tuberculosis Control Program:				
Special T.B. Team Project 2000	93.116	7460020708013	26-016040	$ (38,417)
Special T.B. Team Project 2001	93.116	7460020708025	26-016045	(42,331)
Special T.B. Team Project 2002	93.116	7460020708035	26-016052	(41,469)
Special T.B. Team Project 2003	93.116	74600207080404	26-016058	(4,195)
Special T.B. Team Project 2004	93.116	74600207080501	26-016066	(11,183)
Special T.B. Team Project 2005	93.116	7460020708 2006	26-016104	2,350
Special T.B. Team Project 2006	93.116	7460020708 2007	26-016108	49,124
Special T.B. Team Project 2007	93.116	2007-021973-001	26-016073	229,432
Total Tuberculosis Control Program				$ 143,311
Subtotal U.S. Department of Health and Human Services				$ 1,717,286

* Major Program

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U.S. Department of Health and Human Services (Continued):				
Pass Through-Texas Department of State Health Services (Continued):				
Family Planning Services:				
Title X Male Health	93.217	7460020708 2006	26-016080	$ 4,814
Title X CHS-Family Planning 2007-2008	93.217	2008-024188-001	26-016115	2,297
Title X Family Planning 2006-2007	93.217	2007-020604-001	26-016108	41,022
Total Family Planning Services				$ 48,133
Occupational Safety and Health Program :				
Childhood Lead Poisoning 2002-2003	93.262	74600207080317	26-016052	$ 329
Childhood Lead Poisoning 2005-2006	93.262	7460020708 2006	26-016104	1,719
Childhood Lead Poisoning 2006-2007	93.262	7460020708D2007	26-016070	61,282
Total Occupational Safety and Health Program				$ 63,330
Immunization Grants:				
Immunization Maintenance 2002	93.268	H23/CCH60449112	26-022087	$ 15
Immunization Maintenance 2003	93.268	H23/CCH622512-01	26-022094	21
Immunization Maintenance 2004	93.268	H23/CCH622512-02	26-022100	(21,498)
Immunization Program 317 -2005	93.268	2008-023615-001	26-016116	42,943
Childhood Immunization 2005	93.268	H23/CCH622512-0	26-022105	31,620
Childhood Immunization 2006	93.268	H23/CCH622512-04	26-022111	882,196
Childhood Immunization 2007	93.268	H23/CCH62251205	26-022122	1,732,496
Total Immunization Grants				$ 2,667,793
Pass Through - Texas Department of Housing and Community Affairs:				
Refugee and Entrant Assistance - State Administered Programs:				
Federal Refugee Health Scrn Prg 2005-2006	93.566	7460020708 2006	26-016110	$ (8,818)
Refugee and Entrant Assistance Discretionary Grants:				
Refugee Health Screening 2000-2001	93.576	74600207080121	26-016040	$ 4,353
Refugee Health Screening 2002-2003	93.576	74600207080315	26-016052	(4,353)
Refugee Health Screening 2003-2004	93.576	74600207080412	26-016058	(6,695)
Refugee Health Screening 2004-2005	93.576	7460020708 2005	26-016066	20,668
Refugee Health Screening 2006-2007	93.576	2007-021043-001	26-016108	135,545
Total Refugee and Entrant Assistance Discretionary Grants				$ 149,518
Community Services Block Grant:				
Community Services Program Admin. 2005	93.569	611061615	26-060077	$ 4,069
CSBG Discretionary Funds	93.569	611061615	26-060078	(16,617)
CSBG - Community Action Division 2006	93.569	2006-4.18	26-060080	522,862
CSBG - Community Action Division 2007	93.569	2007-4.19	26-060000	1,062,300
Total Community Services Block Grant				$ 1,572,614
Subtotal U.S. Department of Health and Human Services				$ 4,492,570

* Major Program

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U.S. Department of Health and Human Services (Continued):				
Pass Through-Texas Department of State Health Services:				
Center for Disease Control and Prevention - Investigations and Technical Assistance:				
Infectious Disease/Surveillance Project 01604	93.283	74600207080120	26-016040	$ (321)
Infectious Disease/Surveillance Project 01604	93.283	7460020708029	26-016045	(3,901)
Bio-Terrorism Prep 2002-2003	93.283	74600207080316	26-016052	2,789
Bio-Terrorism Prep 2003-2004	93.283	74600207080401B	26-016058	(101,685)
Bio-Terrorism Prep 2003-2004	93.283	74600207080402	26-016058	817
Bio-Terrorism Prep 2004-2005	93.283	7460020708 2005	26-016066	(336,996)
Bio-Terrorism Prep 2007-2008	93.283	2008-022935-001	26-016078	67,889
Bio-Terrorism Prep Lab 2007-2008	93.283	2008-022966-001	26-016075	8,476
Cities Readiness Initiative 2006-2007	93.283	7460020708 2006	26-016110	314,683
Cities Readiness Initiative 2007-2008	93.283	2008-023015-001	26-016077	11,684
Steps to a Healthier US 2004-2005	93.283	U58/CCU624469-01	26-022104	1,196
Steps to a Healthier US 2005-2006	93.283	U58/CCU624469-02	26-022110	238,252
Steps to a Healthier US 2006-2007	93.283	U58/CCU624469-03	26-022121	1,476,959
Total Center for Disease Control and Prevention - Investigations and Technical Assistance				$ 1,679,842
Pass Through - Alamo Workforce Development, Inc.:				
Child Care Cluster: *				
Child Care and Development Block Grant				
CCDS - 2003-2004	93.575	CCDS2003001	26-039016	$ (134,876)
CCDS - 2004-2005	93.575	CCDS2003001	26-039017	8,417
CCDS - 2005-2006	93.575	CCDS2003001	26-039018	1,341,120
CCDS - 2006-2007	93.575	CCDS2003001	26-039019	3,843,093
Total Child Care and Development Block Grant				$ 5,057,754
Child Care Mandatory and Matching Funds of the Child Care and Development Fund:				
CCDS - 2003-2004	93.596	CCDS2003001	26-039016	$ (1,970)
CCDS - 2004-2005	93.596	CCDS2003001	26-039017	743
CCDS - 2005-2006	93.596	CCDS2003001	26-039018	(793,941)
CCDS - 2006-2007	93.596	CCDS2003001	26-039019	34,887,239
Total Child Care Mandatory and Matching Funds of the Child Care and Development Fund				$ 34,092,071
Total Child Care Cluster				$ 39,149,825
Direct Programs:				
Acquired Immunodeficiency Syndrome (AIDS) Activity:				
Conference of Mayors Research and Education Project	93.118	U62/CCU300609	26-022092	$ (334)
Subtotal U.S. Department of Health and Human Services				$ 40,829,333

* Major Program

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U.S. Department of Health and Human Services (Continued):				
Direct Programs (Continued):				
Health Program for Toxic Substances and Disease Registry:				
Community Environmental Health Educ	93.161	DHHS	26-022096	$ 56
Environmental Health Screening 2003-2004	93.161	H75/ATH672047-02	26-022098	(486)
Environmental Health Screening 2005-2006	93.161	H75/ATH672047-03	26-022110	111,150
Total Health Program for Toxic Substances and Disease Registry				$ 110,720
Substance Abuse and Mental Health Services - Access to Recovery:				
CCDS MidCoast Ops 2006-2007	93.275	CCDS20030001	26-039020	$ 269,852
Head Start:	*			
Head Start Program 2005	93.600	06CH0107/27	26-022103	$ 384
Head Start Program 2006	93.600	06CH0107/28	26-022112	16,455,611
Head Start Program 2006	93.600	06CH0107/29	26-022120	30,223,959
Total Head Start Program:				$ 46,679,954
Assets for Independence Demonstration Program:				
Families Save 2 IDA	93.602	90E10135/01	26-022095	$ 446,687
Families Save 3 IDA	93.602	90E10308/01	26-022107	(18,749)
Total Assets for Independence Demonstration Program:				$ 427,938
Foster Care Title IV-E:				
CCDS-Foster Care 2005-2006	93.658	CCDS2003001	26-039018	$ 54,837
CCDS-Foster Care 2006-2007	93.658	CCDS2003001	26-039019	847,017
Total Foster Care Title IV-E:				$ 901,854
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs:				
Breast/Cervical Cancer Cntrl 2005-2006	93.919	2006-020051-001	26-016108	$ 83,951
Breast/Cervical Cancer Cntrl 2006-2007	93.919	2007-022868-001	26-016074	3,353
Total Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs				$ 87,304
Healthy Start Initiative:				
Healthy Start Initiative 2003-2004	93.926	5 H49 MC 00101-03 0	26-022097	$ (10,927)
Healthy Start Initiative 2004-2005	93.926	HRSA 5 H49MC00101-04-00	26-022102	(841)
Healthy Start Initiative 2005-2006	93.926	2 H49MC00101-05-00	26-022109	(4,573)
Healthy Start Initiative 2006-2007	93.926	5H49MC001010600	26-022119	435,653
Healthy Start Initiative 2007-2008	93.926	5H49MC001010700	26-022124	172,767
Total Healthy Start Initiative:				$ 592,079
Subtotal U.S. Department of Health and Human Services				$ 49,069,701

* Major Program

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U.S. Department of Health and Human Services (Continued):				
Pass Through - Texas Department of State Health Services:				
Social Services Block Grant:				
Certification Enhancement Project	93.667	08220Y00	26-039013	$ (2,735,430)
Family Planning Project 2002-2003	93.667	7460020708A0303	26-016054	(39,280)
Family Planning Project 2004-2005	93.667	7460020708A 2005	26-016063	(5,596)
Title X CHS-Family Planning 2007-2008	93.667	2008-023702-001	26-016115	59,503
Title XX Family Planning 2005-2006	93.667	7460020708A 200	26-016110	137,123
Title XX Family Planning 2006-2007	93.667	2007-020438-003	26-016108	513,496
Total Social Services Block Grant:				$ (2,070,184)
HIV Prevention Activities - Health Department Based:				
AIDS Prevention/Surveillance 2004	93.940	74600207080502	26-016066	$ 3,456
AIDS Prevention/Surveillance 2005	93.940	7460020708 2006	26-016104	19,169
AIDS Prevention/Surveillance 2007	93.940	2007-021956-001	26-016071	132,575
Evidence Based Intervention Program	93.940	7460020708 2007	26-016108	43,764
Total HIV Prevention Activities - Health Department Based				$ 198,964
Human Immunodeficiency Virus (HIV)/Acquired Immunodefiency Virus Syndrome (AIDS) Surveillance				
AIDS Surveillance Program 2003-2004	93.944	74600207080401	26-016058	$ (6)
AIDS Surveillance Program 2006-2007	93.944	7460020708 2007	26-016108	27,272
AIDS Surveillance Program 2007-2008	93.944	2007-021837-001	26-016069	56,313
TB Prevention and Control 2007-2008	93.944	2008-024476-001	26-016116	14,366
Total Human Immunodeficiency Virus (HIV)/ Acquired Immunodefiency Virus Syndrome (AIDS) Surveillance				$ 97,945
Preventative Health Services - Sexually Transmitted Diseases Control Grants:				
STD Staff Support 2000-2001	93.977	7460020708011	26-016040	$ (3,424)
STD Staff Support 2001-2002	93.977	7460020708022	26-016045	(23,892)
STD Staff Support 2002-2003	93.977	7460020708034	26-016052	(19,282)
STD Staff Support 2003-2004	93.977	74600207080403	26-016058	(20,864)
STD Staff Support 2004-2005	93.977	74600207080503	26-016066	8
STD Staff Support 2005-2006	93.977	74600207082006	26-016104	314
STD Staff Support 2006-2007	93.977	7460020708 2007	26-016108	82,419
STD Staff Support 2007-2008	93.977	2007-021868-001	26-016072	290,005
Total Preventative Health Services - Sexually Transmitted Diseases Control Grants				$ 305,284
Subtotal U.S. Department of Health and Human Services				$ (1,467,991)

* Major Program

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U.S. Department of Health and Human Services (Continued):				
Pass Through - Texas Department of State Health Services (Continued):				
Cooperative Agreements for State-Based Diabetes - Control Programs and Evaluation of Surveillance Systems:				
Families Preventing Diabetes Prog. 2004-2005	93.988	7460020708 2005	26-016066	$ (1,819)
Families Preventing Diabetes Prog. 2005-2006	93.988	7460020708 2006	26-016104	395
Families Preventing Diabetes Prog. 2006-2007	93.988	7460020708 2007	26-016108	39,078
Families Preventing Diabetes Prog. 2007-2008	93.988	2007-022052-001	26-016113	33,451
Total Cooperative Agreements for State-Based Diabetes - Control Programs and Evaluation of Surveillance Systems				$ 71,105
Pass Through - State of Texas:				
Maternal and Child Health Services Block Grant to the States:				
Family Health Core PH POP Based 2007-2008	93.994	2008-022987-001	26-016076	$ 7,588
Family Health Core PH POP Based 2006-2007	93.994	2007-020417-001	26-016108	147,234
Title V Maternal & Child Health 2006-2007	93.994	2007-020438-001	26-016108	154,328
Title V CHS-Dental Services 2007-2008	93.994	2008-024172-001	26-016115	202
Title V CHS-Prenatal Service 2007-2008	93.994	2008-024106-001	26-016115	27,981
Total Maternal and Child Health Services Block Grant to the States				$ 337,333
Total U.S. Department of Health and Human Services				$ 96,064,410
U.S. Department of Homeland Security:				
Pass Through - Office of the Governor:				
Urban Areas Security Initiative:				
UASI 2004	97.008	2004 UASI 65000	26-065006	$ 2,130
Shelter Board:				
Emergency Food and Shelter National Board Program:				
Emergency Food and Shelter 2003-2004	97.024	788600010	26-056053	$ 45
Direct Programs:				
National Explosives Detection Canine Team Program:				
Airport K9	97.072	DTFA0102A02101	26-065017	$ 251,000
Assistance to Firefighters Grant:				
Assistance to Firefighters Grant 2004	97.044	EMW2004FG11715	26-056056	$ 166,672
Assistance to Firefighters Grant 2005	97.044	EMW2005FG15234	26-056058	102,675
Assistance to Firefighters Grant 2006	97.044	EMW2006FG05971	26-056065	354,158
Total Assistance to Firefighters Grants				$ 623,505
Subtotal U.S. Department of Homeland Security				$ 876,680

* Major Program

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U.S. Department of Homeland Security (Continued):				
Pass Through - Office of the Governor:				
Disaster Grants - Public Assistance (Presidentially Declared Disaster):				
FEMA Flood 2002	97.036	FEMA 1425DR	26-056044	$ (326,236)
Hurricane Katrina Project	97.036	N/A	26-056058	377,197
Hurricane Dean Project	97.036	N/A	26-056058	587,454
Total Disaster Grants - Public Assistance (Presidentially Declared Disaster):				$ 638,415
Hazard Mitigation Grant:				
Disaster Relief - Flood of 1998	97.039	FEMA1257DR	26-056032	$ (32,223)
Emergency Management Performance Grants:				
EMPG 2003-2004	97.042	EMT2004GR0105	26-056054	$ (139,891)
EMPG 2004-2005	97.042	40000990	26-056057	33,054
EMPG 2005-2006	97.042	40001260	26-056058	33,421
EMPG 2006-2007	97.042	07TX-EMPG0632	26-065020	140,366
Total Emergency Management Performance Grants				$ 66,950
Homeland Security Cluster:				
Homeland Security Grant Program:				
Homeland Security	97.067	2003II65000	26-065002	$ (31,481)
UASI 2005	97.067	2005 HSGP 65000	26-065012	3,398,040
UASI 2006	97.067	2006-GET60068	26-065019	218,998
Total Homeland Security Grant Program				$ 3,585,557
Metropolitan Medical Response System:				
Metro Medical Response System 2002-2003	97.071	282-97-0041	26-022089	$ (19,353)
Metro Medical Response System 2004-2006	97.071	2005HSGP-65000	26-065007	146,539
Metro Medical Response System 2006-2007	97.071	06-SR65000-01	26-065018	158,302
Total Metropolitan Medical Response System				$ 285,488
State Homeland Security Program:				
Homeland Security - State	97.073	2003II65000	26-065002	$ (30,261)
SHSP 2005	97.073	40001116	26-065010	125,394
SHSP Police 2006	97.073	2006GA65000-04	26-056067	41,008
Total State Homeland Security Program				$ 136,141
Subtotal Homeland Security Cluster				$ 4,007,186
Subtotal U.S. Department of Homeland Security				$ 4,680,328

* Major Program

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U.S. Department of Homeland Security (Continued):				
Pass Through - Office of the Governor (Continued):				
Homeland Security Cluster (Continued):				
Law Enforcement Terrorism Prevention Program (LETPP):				
Law Enforcement Terrorism Prev 2003-2005	97.074	21004 HSGP 6500	26-065003	$ (323)
Law Enforcement Terrorism Prev 2004-2006	97.074	21005 HSGP 6500	26-065009	266,167
LETPP 2006	97.074	2006GA65000-04	26-065021	78,271
Total Law Enforcement Terrorism Prevention Program (LETPP)				$ 344,115
Buffer Zone Protection Program (BZPP):				
Buffer Zone 2005-2007	97.078	2005-BZPP-65000	26-065011	$ 176,423
Buffer Zone 2005-2006	97.078	2005-BZ-T6-0032	26-065013	41,837
Buffer Zone 2007-2008	97.078	2006-BZ-T6-0032	26-065024	12,511
Total Buffer Zone Protection Program (BZPP)				$ 230,771
Direct Programs:				
Law Enforcement Officer Reimbursement Agreement Program:				
Airport Checkpoint Grant 2004-2010	97.090	HSTS01-04-A0076	26-065015	$ 374,324
Total Homeland Security Cluster				$ 4,956,396
Total U.S. Department of Homeland Security				$ 6,506,218
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 172,426,253

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards Year Ended

September 30, 2007

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

2. In March 1998, the City of San Antonio accepted a Housing and Urban Development (HUD) Section 108 award in an amount up to $38,700,000 which authorized a loan transaction with the Greater Kelly Development Corporation, now known as Port San Antonio (Port) to fund certain improvements in real property to be leased at KellyUSA. As of September 30, 2007, the City has made third party loans to the Port in the amount of $20,000,000. The construction portion of this program terminated March 2003 and currently, the only activity is the loan repayment account. This loan program contains no continuing compliance requirements.

3. In September 2004, City Council authorized the submission of a $57,000,000 HUD 108 loan application to the Department of Housing and Urban Development (HUD), which was received August 2006. Proceeds of the loan have been utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities.

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Notes to the Schedule of Expenditures of Federal Awards Year Ended (Continued)
September 30, 2007

4. In fiscal year 2007, the City provided federal awards to subrecipients as follows:

Program Titles	Federal CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Food Program for Women, Infants, and Children	10.557	$ 3,805
Community Development Block Grants/Entitlement Grants	14.218	10,432,583
Emergency Shelter Grants Program	14.231	206,067
Supportive Housing Program	14.235	4,323,678
HOME Investment Partnerships Program	14.239	3,587,106
Housing Opportunities for Persons with AIDS	14.241	1,017,499
Public Health Emergency Preparedness	93.069	61,816
Tuberculosis Control Programs	93.116	14,003
Immunization Grant	93.268	9,449
Steps to a Healthier San Antonio	93.283	83,826
Community Service Block Grant	93.569	85,753
Child Care and Development Block Grant	93.575	33,000
Child Care and Development Block Grant	93.596	783,228
Head Start	93.600	46,033,052
Breast and Cervical Cancer Early Detection Programs	93.919	22,226
Healthy Start Initiative	93.926	4,731
HIV Prevention Activities-Health Department Based	93.940	155
Urban Areas Security Initiative	97.067	17,704
Airport K-9	97.072	2,534
Total		$ 66,722,215

Notes to the Schedule of Expenditures of Federal Awards Year Ended (Continued)

September 30, 2007

5. As of September 30, 2007, the City had HOME Program Notes Receivable of $2,139,124. These are loans that are made for renovation or construction of apartment complexes that provide rental to low income people. Some loans are forgivable provided the program and loan criteria are met.

6. As of September 30, 2007, the City had CDBG Program Notes Receivable of $3,161,313. These are rental rehabilitation loans. Some loans are forgivable provided the program and loan criteria are met.

7. 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 Federal Awards (SEFA) 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 SEFA due to these entries.

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CITY OF SAN ANTONIO, TEXAS

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

Year Ended September 30, 2007

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

Grant Thornton

Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City) as of and for the year ended September 30, 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.

Grant Thornton

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, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
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 OMB Circular A-133

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 OMB Circular A-133

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

Compliance

We have audited the compliance of the City of San Antonio, Texas (the City) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port Authority of San Antonio, San Antonio Water System and San Antonio Local Development Company, Inc., which expended $11,223,720 in federal awards which is not included in the schedule during the year ended September 30, 2007. Our audit, described below, did not include the operations of the Port Authority of San Antonio, San Antonio Water System and San Antonio Local Development Company, Inc., because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2007-9 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable costs/cost principles that is applicable to the CDBG – Entitlement and (HUD-Administered) Small Cities Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Grant Thornton

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 federal programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-8 and 2007-10 through 2007-14.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 federal 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 federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-8 through 2007-11 and 2007-13 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, Members of the City Council, management of the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
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

Federal Awards

Internal controls over major program:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified for all major programs except for CDBG - Entitlement and (HUD-Administered) Small Cities Cluster, which was qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
12.600	Community Economic Adjustment
14.218/14.219/14.248	CDBG - Entitlement and (HUD-Administered) Small Cities Cluster
14.235	Supportive Housing Program
14.239	HOME Investment Partnerships Program
20.106	Airport Improvement Program
93.575/93.596	Child Care Cluster
93.600	Head Start

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

PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding: 2007-1
Capital Assets
Type of Finding: Material Weakness

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.

<u>Context</u>

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.

<u>Cause</u>

The City had not performed a recent evaluation to determine if there would be a difference in the method being utilized.

<u>Recommendation</u>

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.

<u>Views of Responsible Officials and Planned Corrective Actions:</u>

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 FEDERAL AWARD

Finding: 2007-8

CFDA Title: Community Development Block Grants

CFDA Number: 14.218

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Subrecipient Monitoring

Criteria or Specific Requirement:
According to HUD subrecipient monitoring guidelines, 24 CFR 570.503 (b) the elements required in the subrecipient contract include program income. The guidelines also specify that the auditee have a process for determining if an audit report is required under A-133 along with guidelines for reviewing the report for findings and items of non-compliance.

The CDBG regulations (24 CFR 570.501(b)) state that:

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

The language in Subpart J of 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," which applies to CDBG grants, is even more explicit about an entities obligation to monitor subrecipients:

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

Condition:

During the review of subrecipient files, we found the following exceptions:

- Subrecipient files that did not have any indication that the audit report was reviewed by staff
- Subrecipient files that did not have a compliance monitoring report
- Subrecipient contracts that did not have a provision for program income

Questioned Costs:

Not applicable

Context:

It was noted that out of the 19 subrecipient files reviewed, four did not have written evidence that the audit report was reviewed by staff, three did not have a compliance monitoring report, and four subrecipient contracts did not have the required provisions for program income as outlined in 24 CFR 570.503 and 24 CFR 570.504.

Effect:

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

Cause:

Failure to maintain sufficient subrecipient files in accordance with specified regulations.

Recommendation:

We recommend that the City maintain the appropriate documentation in the subrecipient files that supports subrecipient requirements are being met and the appropriate monitoring is being conducted.

Views of Responsible Officials and Planned Corrective Actions:

The A-133 stipulates the following:

- *"(4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- *(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*
- *(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*
- *(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass through entity to comply with this part."*

A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Grants Monitoring and Administration (GMA) is in compliance with the aforementioned requirements. GMA ensures that all subrecipients expending $500,000 or more of federal funds in the fiscal year have met the audit requirements. Documentation of this is the fact that a copy of the most recently completed audit is included in the file. The CDBG regulations, A-133, A-102 Common Rule and A-110 do not stipulate that the City must provide evidence that the audits were reviewed. GMA only takes issue with an agency audit if there is a problem noted in the single audit report, either with the qualification of the opinion or with a finding specifically related to City awarded funds. The reports mentioned had no such issues so they were included in the file as documented. Additionally, GMA has used a File Compliance Checklist since 2005 (last updated on May 18, 2007) which includes a specific section on the subrecipient's audit. The checklist has an area for comments where the date the copy of the subrecipient's audit was received by GMA staff can be noted in the file. This checklist is included in every file and is the first document in the file folder. Effective October 1, 2008, GMA will ensure that the comment section of the File Compliance Checklist includes a statement on whether the audit is qualified or unqualified, make note of any schedule of findings and issues outlined in the management letter related to the CDBG program, and what (if any) follow-up or corrective action is required.

A-133. 400(d)(3) states Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

- *CDBG funding for the Brackenridge School Renovation was allocated prior to the commencement of construction; however, the project underwent a two year contract negotiation. The project was complete by the time the contract was executed and CDBG funds expended. Copies of email communication between GMA and the subrecipient were provided to the auditors to document the lengthy negotiations as well as pictures of the project to prove that a site visit was conducted. Due to the lengthy contract negotiations, the subrecipient borrowed funds to complete the construction activities. CDBG funds were used to support eligible costs associated with the loan, which is allowable by HUD and CDBG program regulations. GMA performed due diligence in ensuring that all expenses were allowable prior to making payment to the contractor. Effective October 1, 2008, GMA staff will document all pre and post-contract execution site visits.*
- *Fairweather Lodge – GMA has implemented a practice in which the final invoice is not approved for payment by the Entitlement Programs Division Manager if a copy of a site visit report and close-out letter does not accompany the invoice. In this instance, the Division Manager was out of the office and her designee approved payment without the aforementioned site visit report and close-out letter. GMA will document the protocols used by Division Managers when reviewing and approving requests for reimbursement. These documented procedures will be made available to Department Staff so that everyone is aware of the policies and procedures.*
- *AVANCE Kelly Playground Equipment – Although site visits were conducted by GMA staff, these activities were not formalized with a site visit report. Effective October 1, 2008, GMA staff will document all pre and post-contract execution site visits.*

Effective October 1, 2008 all subrecipient contracts, regardless of type, will include a section detailing what program income is, whether the specific contract is prone to generate program income, and whether or not the subrecipient is authorized to retain the program income (or return the program income to the City) in accordance with requirements set forth in §570.503 and §570.504.

Responsible Person: *Andrew Cameron*
Director, Grants Monitoring and Administration

Implementation Date: *October 1, 2008*

Finding: 2007-9

CFDA Title: Community Development Block Grants

CFDA Number: 14.218

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Material Noncompliance

Allowable Costs/Cost Principles

Criteria or Specific Requirement:

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, establishes principles and standard for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreement with states, local governments, and non-profit organizations. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, amongst other things, that the expenditure be adequately documented.

According to OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments (A-87)*, Attachment B (11) (h) (3) where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Also, according to A-87, Attachment B (11) (h) (5) Personnel activity reports or equivalent documentation must also reflect an after-the-fact distribution of the actual activity of each employee.

Condition:

We noted that the departments under this grant are not consistent with documenting the required certifications and that one department receiving CDBG funds does not complete these certifications. Furthermore, timesheets do not reference the actual activity being charged other than the inclusion of department information.

We also noted that one payroll expenditure did not agree to the timesheet provided by City staff.

Questioned Costs:

Not applicable

Context:

It was noted that out of the seven payroll expenditures judgmentally selected for testing, five did not have a signed certification on file.

Effect:

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

Cause:

Failure to maintain sufficient payroll certification records.

Recommendation:

We recommend that the City establish a consistent means of documenting certifications. The City may consider modifying the timesheet to include a certifying statement such as "I certify this is a true and accurate statement that the time recorded represents 100% of my time charged to the CDBG program."

Views of Responsible Officials and Planned Corrective Actions:

A timesheet template developed by GMA will be included as an exhibit in the Interdepartmental Agreement. This template will be submitted to GMA on a monthly basis and will include a certification statement indicating that the time and attendance is true and correct. Further certification is given that all time reported on the timesheet was worked solely on CDBG eligible activities.

Responsible Person: *Andrew Cameron*
Director, Grants Monitoring and Administration

Implementation Date: *October 1, 2008*

Finding: 2007-10

CFDA Title: Community Development Block Grants

CFDA Number: 14.218

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Procurement, Suspension and Debarment

Criteria or Specific Requirement:

Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended and debarred or whose principals are suspended or debarred. The non-Federal entity must verify that the contracted entity is not suspended or debarred or otherwise excluded.

Condition:

The City could not provide support that it had reviewed the "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" during their procurement procedures on a consistent basis.

Questioned Costs:

Not applicable

Context:

It was noted that all four files judgmentally selected for testing did not have documented evidence supporting that the City had determined that the contracted parties were not suspended or debarred.

Effect:

The City's lack of supporting documentation to indicate that it did not contract with a suspended or debarred party causes the City to be in noncompliance of specific grant conditions required by the federal agency, which could potentially lead to loss or return of funding.

Cause:

Failure to maintain sufficient procurement records.

Recommendation:

We recommend that the City maintain adequate documentation to ensure compliance with the suspension and debarment requirement. This documentation could include a print out from the Excluded Parties List System maintained by the General Services Administration, collection of a certification from the contracted party, or adding a clause or condition to the covered transaction with the contracted party.

Views of Responsible Officials and Planned Corrective Actions:

The Departments tasked with the oversight of these projects are Parks and Recreation, Public Works and Capital Improvements Management Services (CIMS). The contractor files for the four contracts reviewed by the auditors were maintained in the respective departments (Parks and Recreation, CIMS, Public Works). However, the suspension and debarment certifications were maintained in a different division located in the CIMS department. This separation of duties resulted in the auditors not reviewing the entire procurement file for the selected contractors.

As part of its oversight responsibilities, GMA maintains ordinance documentation on all capital project funded with CDBG funds. Effective October 1, 2008, GMA will maintain suspension and debarment certifications in the capital improvement project files.

Responsible Person: *Andrew Cameron*
Director, Grants Monitoring and Administration

Implementation Date: *October 1, 2008*

Finding: 2007-11

CFDA Title: Community Development Block Grants

CFDA Number: 14.218

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria or Specific Requirement:

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, establishes principles and standard for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreement with states, local governments, and non-profit organizations. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, amongst other things, that the expenditure be adequately documented.

Condition:

The City paid vendors for expenditures that were not supported by invoices or other supporting documentation.

Questioned Costs:

Not applicable

Context:

It was noted one of 40 expenditures judgmentally selected for testing did not have adequate support for the expenditure which was a transfer of funds to an escrow account. However, it was noted that the type of expenditure was an allowable cost.

Effect:

The City's lack of proper support and documentation causes the City to be in noncompliance of specific contract conditions required by the federal agencies, which could potentially lead to loss or return of funding.

Cause:

Failure to obtain invoice or other supporting documentation prior to payment.

Recommendation:

We recommend that the City closely monitor all expenditures and ensure that adequate supporting documentation be obtained before grant expenditures are made.

Views of Responsible Officials and Planned Corrective Actions:

The payment referenced in this exception was a special case in which the vendor was a title company and the funds were escrowed. The basic guidelines governing allowable cost in A-87 is that a cost "be adequately documented." The standard does not dictate that the documentation has to be an invoice. Title Companies do not send invoices; rather they tell the City how much money to bring for escrow. Housing and Neighborhood Services Department sent a memo documenting the amount needed for escrow. The checks were cut to the Title Companies and the City has documentation of the deposit into the escrow account. Additionally, copies of the loan agreements stipulating that funds would be deposited into an escrow account were provided for the auditor's review. The expenditures paid were well documented and were satisfactory to the Housing and Neighborhood Services (HSN) Department, the GMA Department and the Finance Department. However, to ensure this finding is not repeated, effective October 1, 2008, GMA will require a billing statement from the vendor that is being paid prior to approving payment and also show documentation of closing to support the expenditure.

Responsible Person: *Andrew Cameron*
Director, Grants Monitoring and Administration

Implementation Date: *October 1, 2008*

Finding: 2007-12

CFDA Title: Supportive Housing Program

CFDA Number: 14.235

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Subrecipient Monitoring

Criteria or Specific Requirement:

In accordance with OMB Circular A-133 Section .400, the City is required to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. The City is required to identify to the subrecipient the Federal award information and applicable compliance requirements.

Condition:

The City did not identify to the subrecipient the Federal award information, including the CFDA number.

Questioned Costs:

Not applicable

Context:

In one of five subrecipient contracts judgmentally selected for testing, the contract was missing the CFDA number of the pass through funds. This is a repeat finding from the prior year.

Effect:

Without a proper contract with the subrecipient, the City may be reimbursing ineligible subrecipients.

Cause:

The contract had not been updated using the new standardized contract template that had been created.

Recommendation:

We recommend that the City strengthen controls to ensure that the new standardized contract template is used, ensuring that the CFDA number is included on all subrecipient contracts.

Views of Responsible Officials and Planned Corrective Actions:

When the finding regarding the lack of CFDA numbers on several Supportive Housing Program contracts was reported in the City's previous audit the department immediately updated the contract template to include a section that requires the inclusion of CFDA numbers. As reported in the previous single audit the implementation date was October 1, 2007. Due to issuance date of the fiscal year 2006 audit and remaining available time in fiscal 2007, it was expected that the finding may still be identified in the next audit cycle. The one contract noted in the current audit was executed on November 6, 2006 prior to the issuance of the previous year's finding. All contracts executed after October 1, 2007 include the CFDA number. All active contracts have been reviewed and all are now in compliance with this requirement. The Department of Community Initiatives will continue to monitor contract language to ensure compliance.

Responsible Person: *Dennis J. Campa*
Director, Department of Community Initiatives

Implementation Date: *October 2007*

Finding: 2007-13

CFDA Title: HOME Investment Partnerships Program

CFDA Number: 14.239

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Subrecipient Monitoring

Criteria or Specific Requirement:

In accordance with OMB Circular A-133 Section .400, the City is required to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. The City is required to ensure the subrecipients performed required eligibility determinations and redeterminations, (including obtaining any required documentation /verifications) and that the applicant was determined to be eligible.

Condition:

The City did not ensure the applicants' files located at the subrecipient contained documentation of an income eligibility test being performed prior to the benefits being awarded to the applicants.

Questioned Costs:

$243,791, represents the total benefits provided to the nine participants.

Context:

It was noted nine out of a sample of 25 participants' files judgmentally selected for testing did not have any documentation of an income eligibility test being performed prior to the benefits being awarded to the participants selected. Subsequent review of the eligibility determinations by Grants Monitoring and Administration was not documented to support that the review was performed and participants were deemed eligible.

Effect:

The City's lack of documentation supporting its subrecipient monitoring efforts regarding eligibility causes the City to be in noncompliance of specific contract conditions required by the federal agency, which could potentially lead to loss or return of funding.

Cause:

Failure by the City to document its reevaluation of income eligibility determinations made by the subrecipient.

Recommendation:

We recommend that the City develop a standardized form or a template to be used by the subrecipients that documents the required eligibility determinations for each participant. We also recommend that Grants Monitoring and Administration document all of their procedures performed when evaluating exceptions identified through their monitoring process.

Views of Responsible Officials and Planned Corrective Actions:

The finding is that an income eligibility documentation form was not consistently used by either Neighborhood Housing Services (NHS) or U. U. Housing Assistance Corporation (UUHAC) during the audit review time period. However, all files provided to the auditors contain(ed) supporting income documentation such as wage statements, Social Security statements, bank statements for checking and savings accounts, etc. In all of the files reviewed, the program participants/clients served can be categorized as a special population or presumed benefit, as defined by HUD, as they are all seniors and/or physically disabled. All funds expended on said rehabilitation projects are, in fact, eligible expenses per HUD regulations. A spreadsheet provided to the auditors 7/23/08, identifies the total expenditures per address which would be the potential liability to the City should any participant *later be determined to be ineligible for HUD-funded assistance based on income. These totals reflect the project expenditures identified in the HUD IDIS system.*

There have been various corrective actions taken with both NHS and UUHAC to address the lack of agency compliance to maintain an income eligibility documentation form. This non-compliance was identified as a 'finding' to NHS in a Monitoring Report issued in March 2008 by GMA's Monitoring Unit. The agency has since implemented a form that is being utilized for all program participants to document income eligibility. A 'finding' of non-compliance was issued to UUHAC by the City in an On-Site Monitoring Review conducted in October 2007. The agency has developed and implemented an income eligibility documentation form, approved by GMA in February 2008 that is being utilized for all program participants. In addition, both agencies were provided with HUD's Technical Guide for Determining Income and Allowances for the HOME Program-Third Edition (1/2005) as a resource to assist the agency in properly documenting compliance with income eligibility documentation. These corrective actions all occurred after the fiscal year end, but prior to the auditor's conducting the audit for the FY 06-07 program year.

GMA is of the opinion that the City has adequately addressed both this audit finding and demonstrated the corrective actions necessary to eliminate any future finding on this issue.

Responsible Person: *Andrew Cameron*
Director, Grants Monitoring and Administration

Implementation Date: *October 1, 2008*

Finding: 2007-14

CFDA Title: Aviation Improvement Program

CFDA Number: 20.106

Federal Award Number: Various

Federal Award Year: 06/07

Federal Agency: U.S. Department of Transportation

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Activities Allowed/Allowable Costs

Criteria or Specific Requirement:

The contract between the vendor and the City's Aviation department states that a written statement of work completed is required for any payments prior to 100% completion.

Condition:
The City is paying vendors for partially completed work using progress reports submitted by the vendor. However, the City's Aviation staff does not receive a written statement of work completed as outlined in the contract.

Questioned Costs:

$86,000

Context:

It was noted out of a sample of 40 expenditures judgmentally selected for testing from eight different grant agreements; all expenditure support was provided by the City, however, the City could not provide the written statements of work completed as required by the vendor's contract.

Effect:

The City's lack of written statements of work completed causes the City to be in noncompliance of specific contract conditions which could potentially lead to loss or return of funding.

Cause:

Failure to require a written statement of work is completed prior to payment of invoices for work on partially completed contracts as well as failure to verify the actual progress of the vendors to ensure accuracy of invoices.

Recommendation:

We recommend that the City review the requirements of all contracts with vendors and develop procedures to ensure that written statements of work completed are submitted prior to payment of partially completed projects and that payments are only made to the extent work has been performed and also that the City develop a process to inspect progress of work to ensure that vendor invoices are accurate.

Views of Responsible Officials and Planned Corrective Actions:

The Aviation Department has reviewed the exceptions noted in this finding and is in agreement. The department has changed its process, as noted in this finding and currently follows the process and procedure guidelines established through the Administrative Directive 8.9 – Financial Management of Capital Projects which became effective March 1, 2008. The Aviation Department is also drafting additional policies and procedures for the processing of all pay estimate invoices managed, monitored and reconciled by the Planning & Development Division of the Department of Aviation. The guidance of these new policies and procedures will ensure that all pay estimate invoices have been reviewed properly and contain sufficient backup documentation, before processing for payment.

Responsible Person: *Mark Webb*
Director, Aviation Department

Implementation Date: *October 1, 2008*