

Financial and Compliance Report on
Federal Grants "Single Audit Report"
For Fiscal Year Ended September 30, 2006



Prepared by:
DEPARTMENT OF FINANCE

Ben Gorzell, Jr., CPA
Director of Finance

Troy Elliott, CPA
Assistant Director

Juanita Carabajal, CPA
Disbursements & Receivables Administrator

Elizabeth M. Drouillard, CPA
Assistant Controller

Jay Blackwell
Assistant Controller

Grants
Gloria Alvarado
James Wilson

City of San Antonio, Texas



Introductory Section

Single Audit Report
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 Year Ended September 30, 2006

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August 16, 2007

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, 2006, was audited by the City's independent Auditors, KPMG LLP, Leal & Carter P.C., and Robert J. Williams, CPA, 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 "Audits of State and Local Governmental Units." 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 Schedule of Expenditures of State Awards is published in a separate report entitled Financial and Compliance Report on State Grants "Single Audit Report."

The City was awarded a total of \$153,567 million in Federal assistance for the fiscal year ended September 30, 2006, compared to \$154,308 million the previous fiscal year. The net decrease of \$.741 million is reported in the following categories:

| | |
|---|---------------------|
| Employment and Training | \$ (2,807,196) |
| Social Services | (6,111,804) |
| Air Transportation | 7,323,675 |
| Interlibrary Services | 29,039 |
| Public Health | 75,710 |
| Recreation and Arts | 147,633 |
| Criminal Justice | 959,908 |
| Economic Development | (125,000) |
| Environmental Quality | 200,000 |
| Emergency Management | 3,421,855 |
| Community Development Block Grant - Year 31 FY 2006 | (2,532,783) |
| HOME Program Grants - Year 14 FY 2006 | (1,322,617) |
| Total Net Decrease | \$ (741,580) |

A summary schedule reflecting amounts of categorical and block grants awarded to the City in fiscal year 2006 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 below 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, 2006 is published under a separate report entitled, Financial and Compliance Report on State Grants "Single Audit Report."

CATEGORICAL GRANTS

Employment and Training

Between fiscal year 2006 and 2005, there is a variance in awards for employment and training in the amount of (\$2,807,196). In the prior years, the City had been awarded dollars from the Department of Labor (DOL) for the San Antonio Youth Opportunity Project. This grant was a five-year award whose last year was fiscal year 2005.

Social Services - \$93,015,869

In fiscal year 2006, the City was awarded Social Services grants totaling \$93,015,869 compared to \$99,127,673 awarded to the City in the previous year. The Department of Community Initiatives received \$46,576,219 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 85 child development centers throughout San Antonio and Bexar County (BC) to children ranging from three to five years of age. The HHS also awarded the City a Families Save Program grant in the amount of \$500,000 to assist low-income families' transition out of poverty and achieve economic self-sufficiency.

The Texas Workforce Commission (TWC) awarded \$35,054,828 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 2006, the program served 10,082 children as compared to 10,162 in 2005. 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 (TDA) through the Alamo Area Council of Governments (AACOG) awarded \$1,708,578 to operate the Metro S.A. Comprehensive Nutrition Project. This program provides 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 2006, these grants provided approximately 930,419 meals to local senior citizens.

The U.S. Department of Housing and Urban Development (HUD) awarded the City grants in the amount of \$6,937,754 to support persons affected by AIDS and assist the homeless. These include the Housing Opportunities for Persons with AIDS (HOWPA) grant in the amount of \$971,000 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 (ESG) grant in the amount of \$634,008 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 \$5,235,248 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 \$97,498 will be used to provide comprehensive housing counseling services.

Social Services (Continued)

AACOG awarded a \$275,246 grant to operate the Supportive Services for the Elderly Program. This program provided approximately 14,334 one-way bus trips primarily for medical appointments to elderly participants.

The Texas Department of Housing and Community Affairs (TDHCA) awarded \$1,865,744 to operate a Community Service Block Grant for the purpose of providing emergency services for our communities most vulnerable residents. Emergency services include: emergency food, rental assistance, utility assistance, and prescription assistance.

| | | |
|---|-------------|-----------------------------|
| Head Start - Early Child Care Program | (HHS) | \$ 46,576,219 |
| Families Save Program | (HHS) | 500,000 |
| Child Care Delivery System Program | (TWC) | 35,054,828 |
| CCDS Mid-Coast Family Program | (TWC) | 97,500 |
| Metro S.A. Comprehensive Nutrition Project | (TDA/AACOG) | 1,708,578 |
| Housing Opportunities for Persons with AIDS | (HUD) | 971,000 |
| Emergency Shelter Program | (HUD) | 634,008 |
| Supportive Housing Program | (HUD) | 5,235,248 |
| Housing Counseling Program | (HUD) | 97,498 |
| Supportive Services for the Elderly Program | (TDA/AACOG) | 275,246 |
| Community Service Block Grant | (HHS) | <u>1,865,744</u> |
| Total FY 2006 Awards | | <u>\$ 93,015,869</u> |

Air Transportation - \$8,278,364

For fiscal year 2006, the City's Aviation Department received four grants totaling \$8,278,364, compared to three grants totaling \$554,689 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 a grant for \$250,000 to fund the Airport K-9 Grant Program. The Federal Aviation Administration (FAA) awarded \$5,000,000 in support of the Acoustical Treatment Program and \$2,628,364 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 |
| Acoustical Treatment Program | (FAA) | 5,000,000 |
| Airport Improvement Program | (FAA) | <u>2,628,364</u> |
| Total FY 2006 Awards | | <u>\$ 7,878,364</u> |

Interlibrary Services - \$1,074,143

In fiscal year 2006, the City was awarded Library Grants totaling \$1,074,143 compared to \$1,045,104 awarded in the previous year. San Antonio Public Library acts as the State designated Major Resource Center and is charged with utilizing grants provided by the Texas State Library and Archives Commission System (TSLAC). These grants provide funds for the Alamo Area Library System (AALS), which oversees the Library Systems Operation Grant and 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.

Interlibrary Services (Continued)

An award of \$286,169 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 \$717,374 was accepted through TSLAC. These funds will be used for the purpose of public library development in the AALS. A Technical Assistance Negotiated Grant in the amount of \$70,600 was also awarded the City to provide technical assistance to support member libraries in the utilization, maintenance, and security of computer resources.

| | | | |
|---|---------|-----------|------------------|
| Interlibrary Loan Services - Federal Grant | (TSLAC) | \$ | 286,169 |
| Library System Operations - Federal | (TSLAC) | | 717,374 |
| Library Technical Assistance Negotiated Grant | (TSLAC) | | 70,600 |
| Total FY 2006 Awards | | \$ | 1,074,143 |

Public Health - \$15,808,171

In fiscal year 2006, the City was awarded Public Health Grants totaling \$15,808,171 compared to \$15,732,461, awarded to the City in the previous year. The San Antonio Metropolitan Health District (SAMHD) received \$1,737,917 in Public Health State Support Project grants from Texas Department of Health (DSHS) to supplement the delivery of comprehensive public health services to protect the health of all citizens in the San Antonio and the unincorporated areas of Bexar County. A \$3,042,390 U.S. Department of Health and Human Services (DHHS) grant was awarded to fund the Childhood Immunization Maintenance Project, which provides immunization protection against vaccine preventable diseases for children throughout the community. A \$3,564,175 DHHS grant was awarded to fund the Steps to a Healthier San Antonio Program, which provides intervention strategies to improve nutrition, increase physical activity, and prevent tobacco use and exposure.

The DHHS also awarded SAMHD a grant in the amount of \$416,283 to fund the Public Center for Environmental Health projects. This program will provide screening and monitoring that addresses and facilitates documentation of local and regional public health issues related to environmental exposure and also develop strategies for evaluating potential adverse health outcomes related to past practices at the former Kelly Air Force Base. A \$125,000 grant from the DHHS was awarded to the SAMHD to participate in a Healthy Start Initiative to reduce the incidence of infant mortality and low birth weight in Bexar County.

A \$5,835,675 grant was awarded from the DSHS to operate the Women, Infants and Children (WIC) 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 \$282,900 grant was awarded from the DSHS 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 \$67,174 grant was awarded from DSHS to augment support for the ongoing Title X Family Planning and a \$736,657 grant was awarded from DSHS for the ongoing Title XX Family Planning Program. Both programs provide a variety of medical services, including family planning.

Public Health (Continued)

| | | |
|--|--------|----------------------|
| Public Health State Support Project | (DSHS) | \$ 1,737,917 |
| Childhood Immunization Maintenance Project | (DHHS) | 3,042,390 |
| Steps to a Healthier San Antonio Program | (DHHS) | 3,564,175 |
| Health and Well Center | (DHHS) | 416,283 |
| Healthy Start Initiative | (DHHS) | 125,000 |
| Women, Infants and Children (WIC) Project | (DSHS) | 5,835,675 |
| Breast and Cervical Cancer Control Program | (DSHS) | 282,900 |
| Family Planning Program | (DSHS) | 803,831 |
| Total FY 2006 Awards | | \$ 15,808,171 |

Recreation and Arts - \$943,323

In fiscal year 2006, the City was awarded Recreation and Arts grants totaling \$909,196 compared to \$795,690 awarded to the City in the previous year. The Texas Department of Human Services (TDHS) awarded grants in the amount of \$909,196 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 261,030 after school snacks and 262,725 lunches in conjunction with the Department's traditional Recreation Services Program operating at ninety-four sites to eligible participants ages eighteen and under. The Texas Commission for the Arts (TCA) awarded a new \$34,127 grant to the City's Office of Cultural Affairs. This grant supported the operations of five local art agencies.

| | | |
|---|--------|-------------------|
| Summer Food Service Project | (TDHS) | \$ 909,196 |
| Texas Commission for the Arts Local Arts Agencies | (TCA) | 34,127 |
| Total FY 2006 Awards | | \$ 943,323 |

Criminal Justice - \$4,368,621

In fiscal year 2006, the City was awarded Criminal Justice grants totaling \$4,368,621 compared to \$3,408,713 awarded to the City in the previous year. The Department of Justice (DOJ) 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 \$2,172,650 grant for the Multi-Agency Drug Courier and Apprehension Task Force.

The Texas Department of Transportation (TxDOT) awarded the Police Department grants totaling \$590,000. A DWI STEP Program grant in the amount of \$500,000 was awarded which expands the Department's previous efforts at combating the incidence of driving while intoxicated as well as driving while intoxicated related accidents. A Click It or Ticket-STEP Program grant in the amount of \$90,000 was awarded to ensure compliance with seat belt and child safety seats laws.

The Police Department was awarded grants for administrative support. A \$943,657 grant was awarded from the DOJ for the Local Law Enforcement Block Grant for the purchase and maintenance of equipment. A \$173,896 grant was awarded from the Criminal Justice Department (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 \$50,000 and a \$100,000 grant were awarded from CJD to fund the Crisis Assistance Team. The purpose of the grant project is to provide intervention services to battered women.

Criminal Justice (Continued)

The City Department of Community Initiatives received a grant totaling \$41,343 for the Juvenile Accountability Block Grant. The grant seeks to divert at-risk youth from delinquent behavior into more positive behaviors by providing intensive, long-term case Management and family support.

The City Attorney's Office received a grant from CJD totaling \$297,075 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.

| | | |
|---------------------------------------|---------|---------------------|
| San Antonio Multi-Agency Task Force | (DOJ) | \$ 2,172,650 |
| DWI Step Program | (TxDOT) | 500,000 |
| Click It or Ticket STEP Program | (TxDOT) | 90,000 |
| Local Law Enforcement Block Grant | (DOJ) | 943,657 |
| Project EASE | (CJD) | 173,896 |
| Crisis Assistance Team Administration | (CJD) | 150,000 |
| Juvenile Accountability Block Grant | (CJD) | 41,343 |
| Domestic Violence Against Women | (CJD) | 297,075 |
| Total FY 2006 Awards | | \$ 4,368,621 |

Economic Development - \$149,950

In fiscal year 2006, the City was awarded Economic Development Grants totaling \$149,950 compared to \$274,950 awarded to the City in the previous year. The Department of Defense (DOD) awarded the City a grant in the amount of \$149,950 to operate the Procurement Outreach Program. This program provides technical procurement assistance to businesses seeking to market their products and services to federal, state, and local governments.

Environmental Quality - \$200,000

In fiscal year 2006, the City was awarded Environmental Quality grants totaling \$200,000, which is an increase of \$200,000 for prior year. The U.S. Environmental Protection Agency (EPA) awarded a grant for the Brownfield's Petroleum Assessment. This program is to implement environmental site assessments in order to encourage the redevelopment of abandoned, vacant, or underutilized gasoline filling stations, and petroleum contaminated sites located within the City.

Emergency Management - \$8,557,687

In fiscal year 2006, the City was awarded Emergency Management grants totaling \$8,557,687 which compared to \$5,135,832 awarded to the City in the previous year. In 2006, the City received grants in the amount of \$7,623,640 to combat terrorism. The first grant awarded in the amount of \$4,614,579, from the State of Texas Office of Governor, Division of Emergency Management (OGDEM), was used to assist the City with homeland security readiness through training, drills, planning, equipment, and pharmaceuticals. The second grant from the OGDEM, in the amount of \$249,522, was awarded and was used to aid the City in reducing vulnerabilities of critical infrastructure and key resource sites. The third grant awarded totaled \$197,750, and was used to assist the City's effort towards the Cities Readiness Initiative. The fourth grant awarded in the amount of \$2,561,789 was received from the U.S. Department of Homeland Security (DHS) through the State of Texas for the Public Health Emergency Preparedness Program (PHEP) for Bioterrorism Preparedness. An additional grant in the amount of \$500,000 was awarded to the Public Center for Environmental Health (PCEH). 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 monitors the Air Force's efforts to remediate contaminates. The Emergency Management Agency awarded the City \$106,318 for assistance to the homeless. The United States Fire Administration awarded \$194,047 to assist firefighter training and purchase of equipment. The State of Texas OGDEM awarded \$133,682 to the San Antonio Fire Department to help plan for disasters.

Emergency Management (Continued)

| | | |
|---|------------|---------------------|
| Homeland Security Grant Programs | (OGDEM) | \$ 4,614,579 |
| Homeland Security Grant Programs | (OGDEM) | 249,522 |
| Cities Readiness Initiative Program | (DSHS) | 197,750 |
| Public Health Emergency Preparedness Programs | (DSHS) | 2,561,789 |
| Public Center for Environmental Health | (DOD) | 500,000 |
| Federal Emergency Management | (FEMA/DPS) | 106,318 |
| United States Fire Administration | (USFA) | 194,047 |
| State Emergency Management Program | (FEMA/DPS) | 133,682 |
| Total FY 2006 Awards | | \$ 8,557,687 |

BLOCK GRANTS

During fiscal year 2006, the City received Block Grants from the U.S. Department of Housing and Urban Development (HUD) under the Community Development Block Grant Program (CDBG) and the HOME Investment Partnership Act (HOME) Program. The City's Housing and Community Development 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 2006 is as follows:

Community Development Block Grant Program - Year 31 (2005-2006) - \$14,846,217

Since 1977, the City has received annual entitlements from the U.S. Department of Housing and Urban Development (HUD) for the Community Development and Block Grant (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 \$14,846,217 for the 31st entitlement year of the program for the period October 1, 2005 to September 30, 2006. The previous year's annual entitlement grant was \$17,379,000.

HOME Investment Partnership Act (HOME) Program - Year 14 (2005-2006) - \$6,724,512

Fiscal Year 2006 was the 14th year the City received an annual entitlement from the U.S. Department of Housing and Urban Development (HUD) for the HOME Investment Partnership Act (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 \$6,724,512 for the 14th entitlement year of the program. The previous year's entitlement grant was \$8,047,129.

COGNIZANT AGENCY

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

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, 2006 is presented in the "Schedule of Findings and Questioned Costs" beginning on page 148 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 2006, 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 authorizations of our grant programs and its leadership along with the City Manager, Deputy City Managers, Assistant City Managers, Assistant to the City Manager and to all of the City Departments who administered these grant programs. Additionally, I would also like to express my appreciation to the staff of the Finance Department, particularly the staff of the Accounting Division, Grants Section for their financial accounting of these grant programs, and to our independent auditors, KPMG, LLP, Leal & Carter, P.C. and Robert J. Williams, CPA, 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 2006
(With Comparative totals for Fiscal Year 2005)

| Grant Type | Fiscal Year 2005-2006 | Fiscal Year 2004-2005 | Variance Increase (Decrease) |
|--|-----------------------------|-----------------------------|------------------------------------|
| Categorical Grants: | | | |
| Employment and Training | \$ 0 | \$ 2,807,196 | \$ (2,807,196) |
| Social Services | 93,015,869 | 99,127,673 | (6,111,804) |
| Air Transportation | 7,878,364 | 554,689 | 7,323,675 |
| Interlibrary Services | 1,074,143 | 1,045,104 | 29,039 |
| Public Health | 15,808,171 | 15,732,461 | 75,710 |
| Recreation and Arts | 943,323 | 795,690 | 147,633 |
| Criminal Justice | 4,368,621 | 3,408,713 | 959,908 |
| Economic Development | 149,950 | 274,950 | (125,000) |
| Environmental Quality | 200,000 | 0 | 200,000 |
| Emergency Management | 8,557,687 | 5,135,832 | 3,421,855 |
| Total Categorical Grants | <u>\$ 131,996,128</u> | <u>\$ 128,882,308</u> | <u>\$ 3,113,820</u> |
| Block Grants: | | | |
| Community Development Block Grant - Year 31 FY 2006 | \$ 14,846,217 | \$ 17,379,000 | \$ (2,532,783) |
| HOME Program Block Grant - Year 14 FY 2006 | 6,724,512 | 8,047,129 | (1,322,617) |
| Total Block Grants | <u>\$ 21,570,729</u> | <u>\$ 25,426,129</u> | <u>\$ (3,855,400)</u> |
| Grand Totals | <u>\$ 153,566,857</u> | <u>\$ 154,308,437</u> | <u>\$ (741,580)</u> |

GRANTING AGENCY AND PROGRAM ACRONYMS

| | | |
|-------|---|--|
| AACOG | - | Alamo Area Council of Governments |
| BC | - | Bexar County |
| CCDS | - | Child Care Delivery Service |
| CDBG | - | Community Development Block Grant |
| CJD | - | Criminal Justice Division |
| DOD | - | Department of Defense |
| DOJ | - | Department of Justice |
| DOL | - | Department of Labor |
| DHHS | - | Department of Housing and Human Services |
| DHS | - | Department of Homeland Security |
| FAA | - | Federal Aviation Administration |
| FEMA | - | Federal Emergency Management Agency |
| HIDTA | - | High Intensity Drug Trafficking Area |
| HHS | - | Health and Human Services |
| HUD | - | Housing and Urban Development |
| SAMHD | - | San Antonio Metropolitan Health District |
| TARC | - | Texas Association of Regional Councils |
| TDA | - | Texas Department on Aging |
| DSHS | - | Texas Department of Health |
| TDHCA | - | Texas Department of Housing and Community Affairs |
| TDHS | - | Texas Department of Human Services |
| TSA | - | Transportation Security Administration |
| TSLAC | - | Texas State Library and Archives Commission |
| TWC | - | Texas Workforce Commission |
| TxDOT | - | Texas Department of Transportation |
| WIC | - | Women, Infants and Children |
| ONDCP | - | Office of National Drug Control Policy |
| OEA | - | Office of Economic Adjustment |
| OGDEM | - | Office of Governor, Division of Emergency Management |

City of San Antonio, Texas



Financial Section

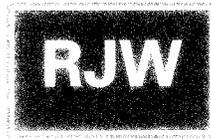
City of San Antonio, Texas



Independent Auditors' Report



300 Convent, Suite 1200
San Antonio, TX 78205



Robert J. Williams
Certified Public Accountant
1100 N.W. Loop 410, Suite 700
San Antonio, TX 78213

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, TX 78230-2573

Independent Auditors' Report

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

We have jointly 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, as of and for the year ended September 30, 2006, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

| | Percent not jointly audited | |
|--------------------------------------|------------------------------------|----------------------|
| | Total assets | Total revenue |
| Government-wide | | |
| Governmental activities | 0% | 0% |
| Business-type activities | 0% | 0% |
| Discretely presented component units | 100% | 100% |
| Fund statements | | |
| Major funds | 0% | 0% |
| Aggregate remaining fund information | 77% | 35% |

| | Percent audited by KPMG & Robert J. Williams | | Percent audited by Leal & Carter | |
|--------------------------------------|---|----------------------|---|----------------------|
| | Total assets | Total revenue | Total assets | Total revenue |
| Government-wide | | | | |
| Discretely presented component units | 71% | 78% | 1% | 2% |
| Fund statements | | | | |
| Aggregate remaining fund information | 0% | 0% | 7% | 4% |

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the City Public Service Board, Brooks Development Authority, San Antonio Education Facilities Corp., San Antonio Health Facilities Development Corp., San Antonio Industrial Development Authority, San Antonio Fire & Police Retiree Health Care Fund, San Antonio Fire & Police Pension Fund, and San Antonio Housing Trust Foundation, Inc. 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 of San Antonio, Texas' 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2007 on our consideration of the City of San Antonio, Texas' internal control over financial reporting and 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 12, the Budgetary Comparison Schedule on page 122, and Schedules of Funding Progress on page 123 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. 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, and the other auditors, did not audit this 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 of San Antonio, Texas' basic financial statements. The introductory section and schedules in the financial section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2006 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedules in the financial section and schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP Robert Williams CPA Leal & Carter, P.C.

June 26, 2007

City of San Antonio, Texas



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2006. 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 \$2,561,704 (net assets). Of this amount, \$189,465 (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 \$845,903, an increase of \$72,949 compared to the fiscal year 2005 fund balance. The total unreserved fund balance of \$570,807 is available for spending at the government's discretion. Of this amount, \$52,707 is designated and \$518,100 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$149,610 or 24.2% of the total General Fund expenditures.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Proprietary fund financial statements provide separate and more detailed information for the Airport, Parking, and Environmental Services Funds. The Airport and Parking Funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

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 certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis, and schedules of funding progress related to pension and retirement plans. A budgetary comparison statement has been provided for this fund in order to demonstrate compliance with this budget.

Government-Wide Financial Analysis

Governmental Accounting and Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis--for State and Local Governments*, requires that the City provides a comparative analysis of government-wide data. Below is a comparative summary of the governmental activities and business-type activities as required by GASB Statement No. 34:

| City of San Antonio, Texas | | | | | | |
|---|-------------------------|---------------------|--------------------------|-------------------|--------------------------|---------------------|
| Net Assets | | | | | | |
| Year Ended September 30, 2006 | | | | | | |
| (With Comparative Totals for September 30, 2005) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and Other Assets | \$ 1,080,579 | \$ 990,155 | \$ 245,795 | \$ 236,980 | \$ 1,326,374 | \$ 1,227,135 |
| Capital Assets | 3,070,178 | 3,068,559 | 319,870 | 307,740 | 3,390,048 | 3,376,299 |
| Total Assets | <u>4,150,757</u> | <u>4,058,714</u> | <u>565,665</u> | <u>544,720</u> | <u>4,716,422</u> | <u>4,603,434</u> |
| Current and Other Liabilities | 189,577 | 168,847 | 23,171 | 30,074 | 212,748 | 198,921 |
| Long-term Liabilities | 1,675,180 | 1,613,274 | 266,790 | 273,576 | 1,941,970 | 1,886,850 |
| Total Liabilities | <u>1,864,757</u> | <u>1,782,121</u> | <u>289,961</u> | <u>303,650</u> | <u>2,154,718</u> | <u>2,085,771</u> |
| Net Assets: | | | | | | |
| Investments in Capital Assets, net of related debt | 1,998,751 | 2,042,288 | 240,764 | 212,715 | 2,239,515 | 2,255,003 |
| Restricted | 105,024 | 101,253 | 27,700 | 26,636 | 132,724 | 127,889 |
| Unrestricted | 182,225 | 133,052 | 7,240 | 1,719 | 189,465 | 134,771 |
| Total Net Assets | <u>\$ 2,286,000</u> | <u>\$ 2,276,593</u> | <u>\$ 275,704</u> | <u>\$ 241,070</u> | <u>\$ 2,561,704</u> | <u>\$ 2,517,663</u> |

For the year ended September 30, 2006, total assets exceeded liabilities by \$2,561,704. The largest portion of the City's net assets, \$2,239,515 (87.4%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

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

Of the total net assets, \$132,724 (5.2%) represents resources that are subject to external restrictions on how they may be used. The remaining \$189,465 (7.4%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

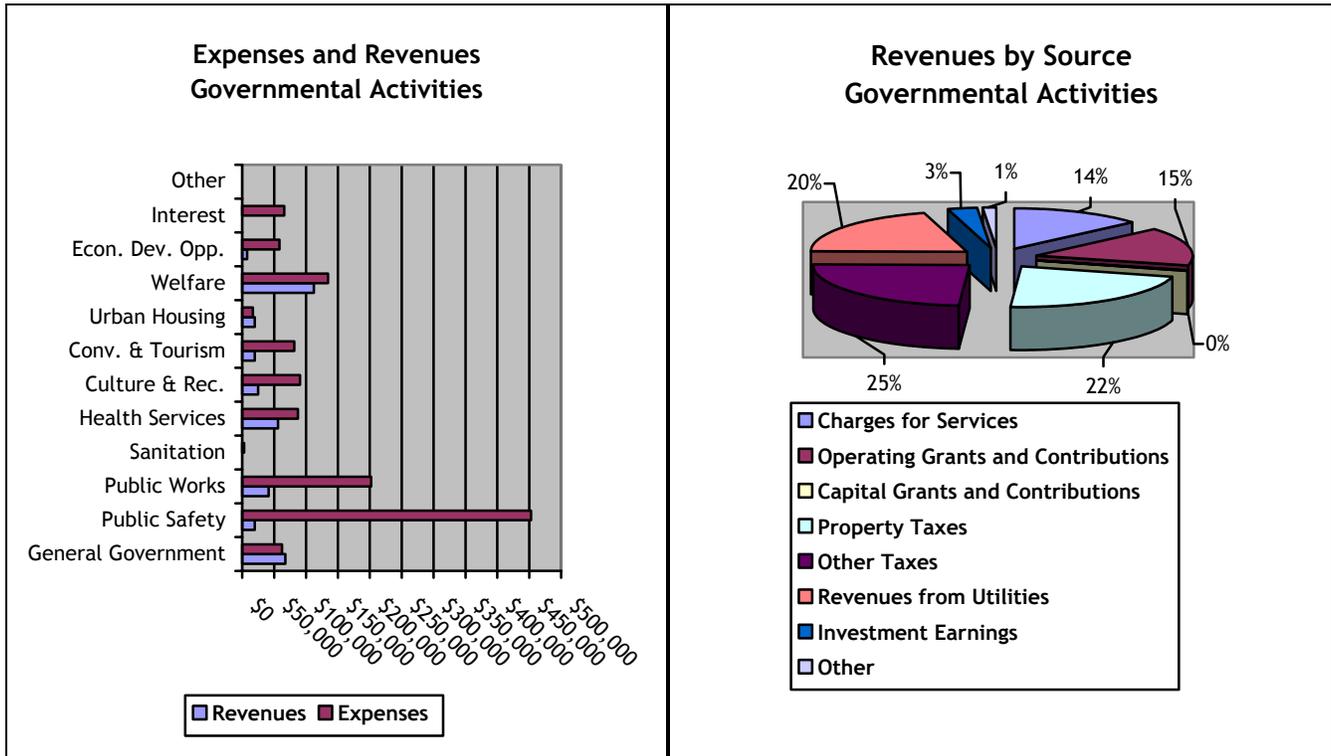
City of San Antonio, Texas
Changes in Net Assets
Year Ended September 30, 2006
(With Comparative Totals for September 30, 2005)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---------------------------------------|----------------------------|---------------------|-----------------------------|-------------------|-----------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 171,427 | \$ 147,109 | \$ 120,360 | \$ 107,869 | \$ 291,787 | \$ 254,978 |
| Operating Grants and Contributions | 195,104 | 198,185 | | | 195,104 | 198,185 |
| Capital Grants and Contributions | 2,271 | 8,256 | 7,710 | 2,223 | 9,981 | 10,479 |
| General Revenues: | | | | | | |
| Property Taxes | 276,728 | 269,138 | | | 276,728 | 269,138 |
| Other Taxes | 308,017 | 253,239 | | | 308,017 | 253,239 |
| Revenues from Utilities | 256,541 | 222,162 | | | 256,541 | 222,162 |
| Investment Earnings | 38,385 | 19,931 | 10,023 | 5,434 | 48,408 | 25,365 |
| Miscellaneous | 14,881 | 22,431 | 10,958 | 9,962 | 25,839 | 32,393 |
| Special Items | | | 10,870 | | 10,870 | |
| Gain on Sale of Capital Assets | 2,427 | 1,507 | 64 | 96 | 2,491 | 1,603 |
| Total Revenues | <u>1,265,781</u> | <u>1,141,958</u> | <u>159,985</u> | <u>125,584</u> | <u>1,425,766</u> | <u>1,267,542</u> |
| Expenses: | | | | | | |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 62,230 | 80,018 | | | 62,230 | 80,018 |
| Public Safety | 455,341 | 428,582 | | | 455,341 | 428,582 |
| Public Works | 201,941 | 149,476 | | | 201,941 | 149,476 |
| Sanitation | 3,112 | 2,731 | | | 3,112 | 2,731 |
| Health Services | 87,283 | 89,011 | | | 87,283 | 89,011 |
| Culture and Recreation | 90,521 | 84,555 | | | 90,521 | 84,555 |
| Convention and Tourism | 81,098 | 48,364 | | | 81,098 | 48,364 |
| Conservation | 146 | 2 | | | 146 | 2 |
| Urban Redevelopment and Housing | 16,821 | 29,764 | | | 16,821 | 29,764 |
| Welfare | 134,554 | 131,840 | | | 134,554 | 131,840 |
| Economic Development Opportunity | 58,388 | 60,461 | | | 58,388 | 60,461 |
| Interest on Long-term Debt | 65,960 | 70,655 | | | 65,960 | 70,655 |
| Business-Type Activities: | | | | | | |
| Airport | | | 53,821 | 46,868 | 53,821 | 46,868 |
| Parking Systems | | | 9,191 | 8,413 | 9,191 | 8,413 |
| Environmental Services | | | 61,318 | 54,703 | 61,318 | 54,703 |
| Total Expenses | <u>1,257,395</u> | <u>1,175,459</u> | <u>124,330</u> | <u>109,984</u> | <u>1,381,725</u> | <u>1,285,443</u> |
| Increase (Decrease) in Net Assets | | | | | | |
| Before Transfers | 8,386 | (33,501) | 35,655 | 15,600 | 44,041 | (17,901) |
| Transfers | 1,021 | 2,150 | (1,021) | (2,150) | | |
| Net Increase (Decrease) in Net Assets | <u>9,407</u> | <u>(31,351)</u> | <u>34,634</u> | <u>13,450</u> | <u>44,041</u> | <u>(17,901)</u> |
| Beginning, net assets | 2,276,593 | 2,307,944 | 241,070 | 227,620 | 2,517,663 | 2,535,564 |
| Ending, net assets | <u>\$ 2,286,000</u> | <u>\$ 2,276,593</u> | <u>\$ 275,704</u> | <u>\$ 241,070</u> | <u>\$ 2,561,704</u> | <u>\$ 2,517,663</u> |

Governmental Activities

The City’s total revenues were \$1,425,766 for fiscal year ended September 30, 2006. Revenues from governmental activities totaled \$1,265,781 and revenues from business-type activities totaled \$159,985. General revenues represented 65.2% of the City’s total revenue, while program revenues provided 34.8% of revenue received in fiscal year 2006.

Expenses for the City totaled \$1,381,725. Governmental activity expenses totaled \$1,257,395, or 91.0% of total expenses.



Governmental Activities increased the City’s net assets by \$9,407. The reason for the change is as follows:

- Revenues from utilities increased by \$34,379, of which \$25,941 is due to an unusually hot and dry year and higher than projected fuel prices. In addition, beginning in fiscal year 2006, the City received an additional transfer from CPS Energy’s Community Infrastructure and Economic Development (CIED) Fund for approved funding for community projects. Of the \$34,379 increase in revenues from utilities, \$8,438 was due to this transfer.
- Revenues from sales taxes increased by \$43,268, of which \$22,218 was realized from the City’s 1/8th sales tax increase approved by voters for parks development funding that began in fiscal year 2006. The General Fund experienced an increase of \$15,479, due to a healthy economy and economic development throughout the City. The remaining increase is due to the fact that Advanced Transportation District’s sales tax began in the summer of 2005, and fiscal year 2006 contains a full 12 months of this dedicated sales tax revenue.
- Charges for Services revenue increased by \$24,318 due to fee increases and the development of new fees enacted for fiscal year 2006. For example, the Police department implemented new revenues from fees for lost taxicab permits, tiered fees for street closures and a new police impound fee for the towing of uninsured motorists. Other examples include the increasing of the fee for the sale of local and state birth records, animal care services fees and increases for various fees within Golf operations.
- Investment earnings increased by \$18,454 due to a significant increase in yields as well as the fact that the City’s net assets are increasing allowing for more cash and investment holdings to earn larger interest revenues.
- General Government expenditures decreased by \$17,788 primarily due to a \$9,074 decrease within long-term debt and a \$10,921 decrease in capital projects due to a change in classification by function within the funds. These decreases were offset by small increases in other areas.

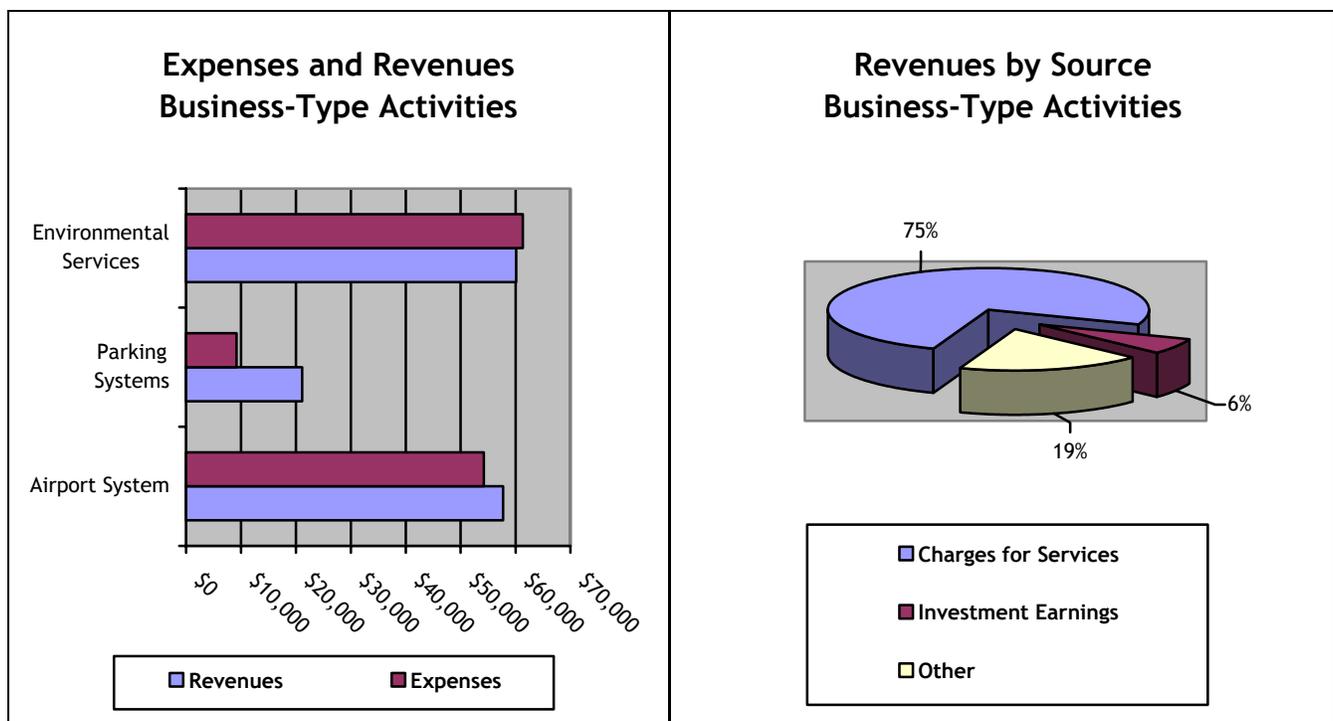
- Public Safety expenditures increased by \$26,759 due to increases in salary and related benefits charges incurred by the City.
- Public Works expenditures increased by \$52,465 due to budgeted increases in the City's capital improvement programs such as streets, stormwater, and other capital projects.
- In fiscal year 2006, Convention and Tourism expenses increased by \$32,734 primarily because of continued construction of the Convention Center Hotel, which began in 2005.

Business-Type Activities

Program revenues for the City's business-type activities totaled \$128,070, which is \$17,978 higher than the previous fiscal year. Expenses for business-type activities were \$124,330 compared to prior year's expenses of \$109,984. The current year's increase in expenses is attributed to increased expenses incurred in the Parking and Environmental Services funds over the prior year. The remaining revenue was a result of interest and other miscellaneous items.

Business-type activities increased the City's net assets by \$34,634, primarily because of the following:

- Charges for Services increased \$12,491 because of an increase in customers served, as well as various fee increases implemented in fiscal year 2006.
- Investment earnings increased by \$4,589 when compared to fiscal year 2005 due to higher interest rates.
- A \$5,487 increase in Capital Grant Contributions in the Airport System Fund was attributed to an increase in grant funded capital expenditures at San Antonio International Airport.
- A \$996 increase in Miscellaneous Revenues in both the Airport System Fund and Parking System Fund.
- A \$10,870 increase in Parking Special Items, because of a reallocation of general obligation debt to the City's governmental activities.
- Expenses for Airport activities increased due to higher personnel costs of \$1,926, contractual services of \$1,213, commodities of \$601, and to expense \$3,074 of costs previously recorded as construction in progress.
- Environmental Services expenditures increased \$6,615. This increase is due to additional expenditures associated with the implementation of automated garbage collection services as well as increases in fuel and maintenance costs. The fund also experienced increases in expenditures due to salary and related benefits increases enacted for fiscal year 2006.



Financial Analysis of Governmental Funds

Activities of the Primary Government’s General Fund, Special Revenue Funds, Debt Service Fund, Convention Center Hotel Finance Corporation Fund, 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 Convention Center Hotel Finance Corporation Fund (Hotel Project), established in 2005, is used to account for financing and costs associated with the design, development, and construction of the Hotel Project. The Categorical Grant-In-Aid Fund is used to account for receipt and disbursement of all federal and state grants except for Community Development Block Grants and Home Investment Partnership Grants.

Revenues from taxes increased by \$62,368, which is primarily attributable to: (1) a \$12,337 or 7.2% increase in property tax revenue in the General Fund, (2) a \$15,479 or 9.3% increase in sales tax revenue in the General Fund, and (3) a \$4,893 or 4.9% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City’s General Fund, increased by \$34,379 or 15.5%. This is primarily attributed to an increase of \$24,262 in the City’s payment from CPS Energy, which is based on CPS Energy’s gross revenues. CPS Energy revenues are impacted by a number of variables such as fuel costs, weather, types of electric generation used, as well as other factors.

The total fund balance of the General Fund at year-end was \$161,476, an increase of \$43,063 from the total fund balance of \$118,413 for the close of fiscal year 2005. The total unreserved General Fund balance for fiscal year 2006 is \$149,610, which represents \$47,087 in designated and \$102,523 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 increased by \$26,983 from the previous year.

The total fund balance of the Debt Service Fund at year-end was \$92,443; an increase of \$7,316 from the total fund balance for the close of fiscal year 2005. The entire fund balance is reserved for payment of debt service.

The Convention Center Hotel Finance Corporation has a total fund balance of \$153,090, which is available for the payment of costs associated with the design, development, and construction of the Convention Center Hotel Project.

The Categorical Grant-In Aid has a total deficit fund balance of \$10,829. The City engaged in a grant reconciliation effort beginning September 2006 and ending February 2007. 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 due to providing more services to the community, the City spent dollars in excess of the grant allocations. These deficits will be funded through future budget processes.

General Fund Budgetary Highlights

| Significant Variances in Budget Appropriations (Budgetary Basis) General Fund | | | |
|--|----------------------------|-------------------------|---------------------------|
| | Original Budget | Final Budget | Actual Results |
| General Government | \$ 96,556 | \$ 95,473 | \$ 71,140 |
| Public Safety | 420,984 | 431,504 | 429,052 |
| Public Works | 10,971 | 10,976 | 10,769 |
| Health Services | 12,125 | 12,651 | 12,413 |
| Sanitation | 2,867 | 2,916 | 2,864 |
| Welfare | 23,097 | 25,913 | 23,504 |
| Culture and Recreation | 71,251 | 72,353 | 71,938 |
| Economic Development and Opportunity | 4,177 | 4,461 | 4,067 |
| Transfers to Other Funds | 87,142 | 90,414 | 90,281 |
| Total | \$ 729,170 | \$ 746,661 | \$ 716,028 |

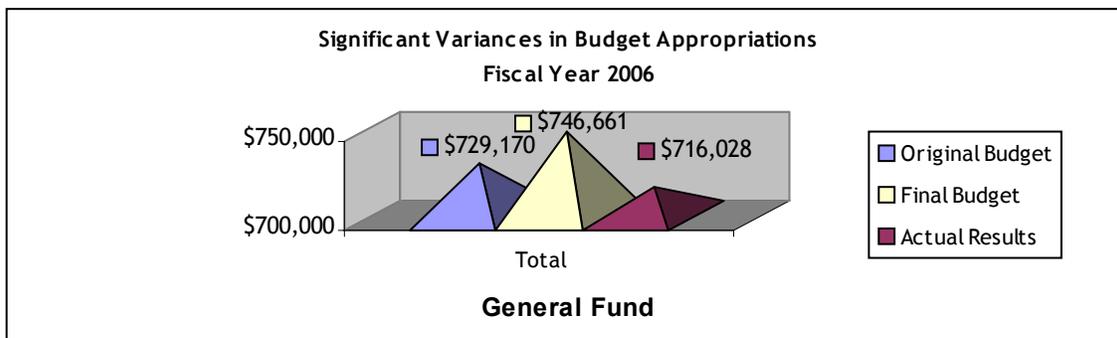
Changes in original budget appropriations to the final amended budget appropriations were a \$17,491 increase in appropriations. This increase can be summarized by the following discussion:

- General Government has a \$1,083 decrease composed of \$9,145 of budget carry forwards and a \$10,228 budget decrease. Of the \$9,145 of budget carry forwards, \$4,772 is for special projects and \$2,051 is nondepartmental carry forwards. The \$10,228 budget decrease is made up of a \$6,956 due to the indirect cost reallocation, decreases in special nondepartmental of \$1,253, in addition to other budget increases and decreases in various departments resulting in a net budget reduction of \$2,019.
- Of the \$10,520 increase in Public Safety, \$3,143 is due to budget carry forwards and \$7,377 of budget increases. Major increases to budget carry forwards include \$1,549 within the Police Department and \$824 for the Fire Department. The \$7,377 budget increase is attributable to increases to the Police and Fire Departments of \$1,317 and \$6,060 respectively. Of the \$1,317 budget increase within the Police Department, \$513 is due increases to budgeted salaries, a \$300 budget increase for Helicopter Detail purchases and other assorted commodity and capital outlay purchases. Significant increases in the Fire Department’s budget include a \$4,250 increase for overtime salaries and \$1,331 for increases to commodity purchases such as parts for automotive maintenance.
- Health Services had a \$526 budget increase, which consists of \$382 of budget carry forwards and \$144 of budget increases.
- Of the \$2,816 increase in Welfare; \$2,243 of the increase is due to budget carry forwards and \$573 is due to a budget increase.
- Culture and Recreation’s \$1,102 increase is due to a \$678 increase for budget carry forwards and a \$424 increase in budget. The increase in budget carry forwards is primarily due to increases in the Library and Parks and Recreation departments of \$294 and \$369, respectively. The \$424 increase in budget is \$112 and \$312 within the Library and Parks and Recreation departments, respectively.
- The \$284 increase in Economic Development and Opportunity is due to a \$255 increase in budget carry forwards and a \$29 budget increase.
- The \$3,272 increase in transfers is due to \$694 in budget carry forwards and the creation of a transfer to Environmental Services for the implementation of automated trash pickup in the amount of \$1,582 funded from various government functions. In addition, budgets were adjusted based on ordinances that were passed throughout the year.

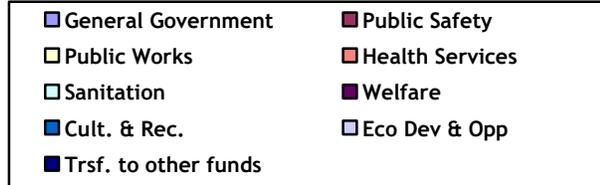
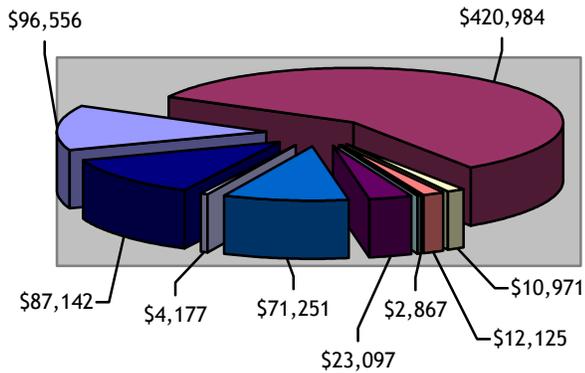
Final budgeted appropriations for the General Fund were \$746,661, while actual expenditures were \$716,028, creating a positive variance of \$30,633. Significant variances are as follows:

- General Government had a \$24,333 positive variance, which is composed of \$9,327 of budgeted personnel expenditures, \$11,021 in various contractual services, \$2,124 in other expenditures due to savings in civilian retiree payouts and phone and fax services, \$1,911 in unrealized expenditures for commodities such as supplies, repair, and maintenance, and a negative variance of \$50 for capital outlay.
- Public Safety has a positive variance of \$2,452, which is composed of a negative variance of \$4,410 for budgeted salaries primarily due to overtime and related benefits, \$2,112 for various contractual services, \$1,430 for commodities such as supplies, \$3,538 for other expenditures such as wireless data, radio and fuel charges, and negative variance of \$218 for capital outlay.
- Welfare has a positive variance of \$2,409, primarily because contributions to other agencies were under budget.

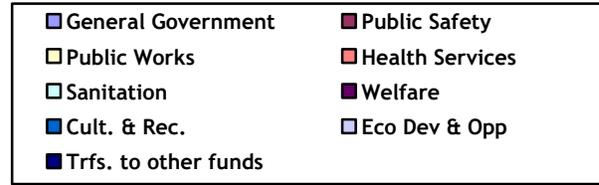
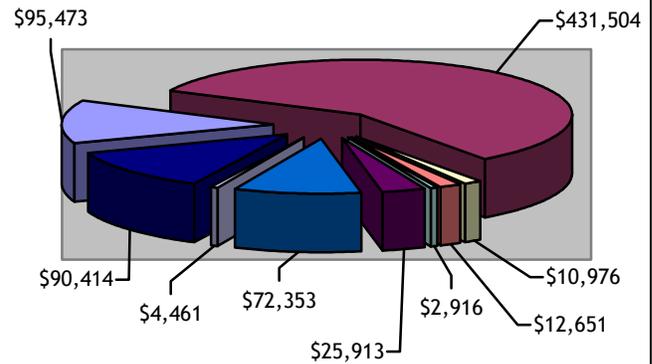
The following charts provide a comparison of the City’s budget appropriations.



**Budget Appropriations by Function
Original Budget - General Fund**



**Budget Appropriations by Function
Final Budget - General Fund**



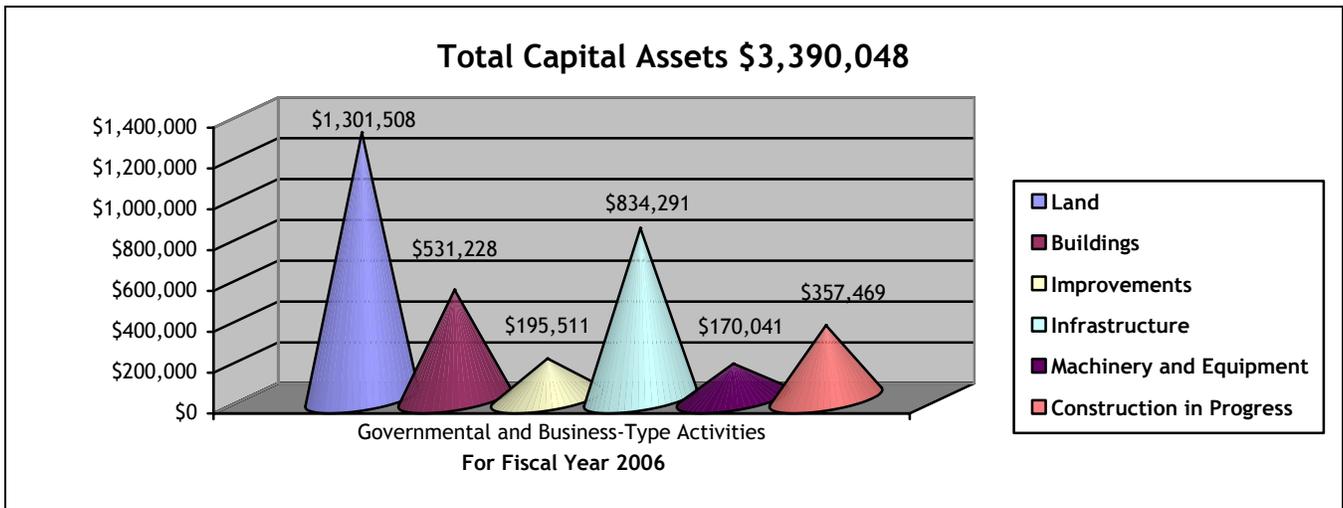
Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to \$3,390,048 (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 \$13,749, which comprises a \$1,619 increase for governmental activities and a \$12,130 increase for business-type activities.

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------|-------------------------|---------------------|--------------------------|-------------------|-----------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | Land | \$ 1,289,520 | \$ 1,268,142 | \$ 11,988 | \$ 11,988 | \$ 1,301,508 |
| Buildings | 428,398 | 228,284 | 102,830 | 106,049 | 531,228 | 334,333 |
| Improvements | 98,927 | 65,579 | 96,584 | 84,039 | 195,511 | 149,618 |
| Infrastructure | 834,291 | 796,202 | | | 834,291 | 796,202 |
| Machinery and Equipment | 166,893 | 95,589 | 3,148 | 3,355 | 170,041 | 98,944 |
| Construction in Progress | 252,149 | 614,763 | 105,320 | 102,309 | 357,469 | 717,072 |
| Totals | \$ 3,070,178 | \$ 3,068,559 | \$ 319,870 | \$ 307,740 | \$ 3,390,048 | \$ 3,376,299 |

During fiscal year 2006, the City transferred \$342,855 of construction in progress to depreciable asset classes for various completed projects for buildings, improvements, infrastructure, and equipment.

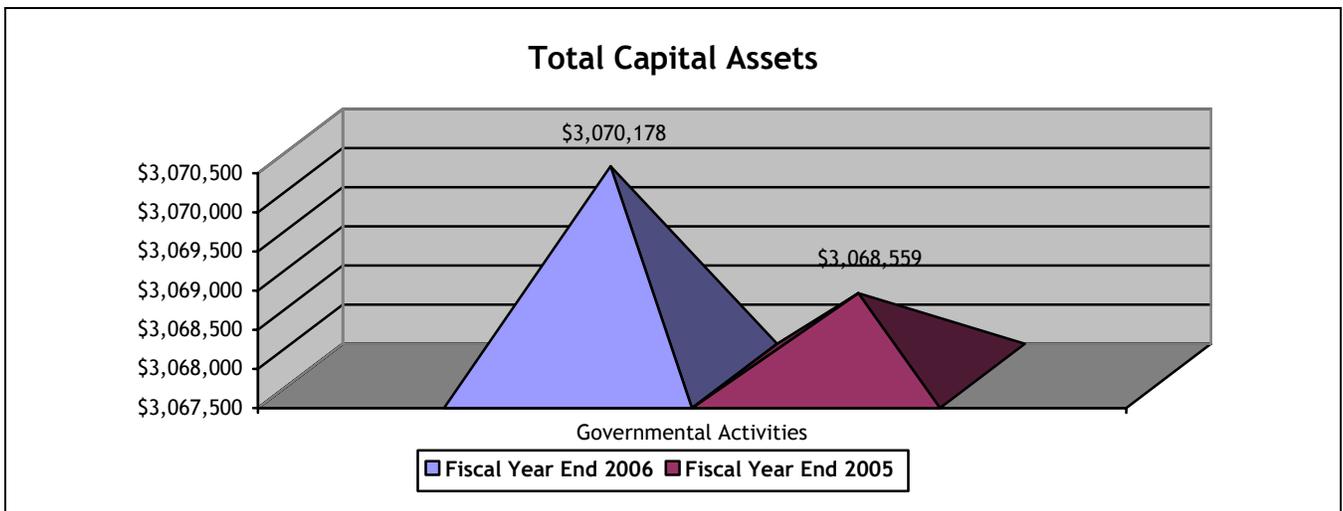
The following schedule provides a summary of the City's capital assets:

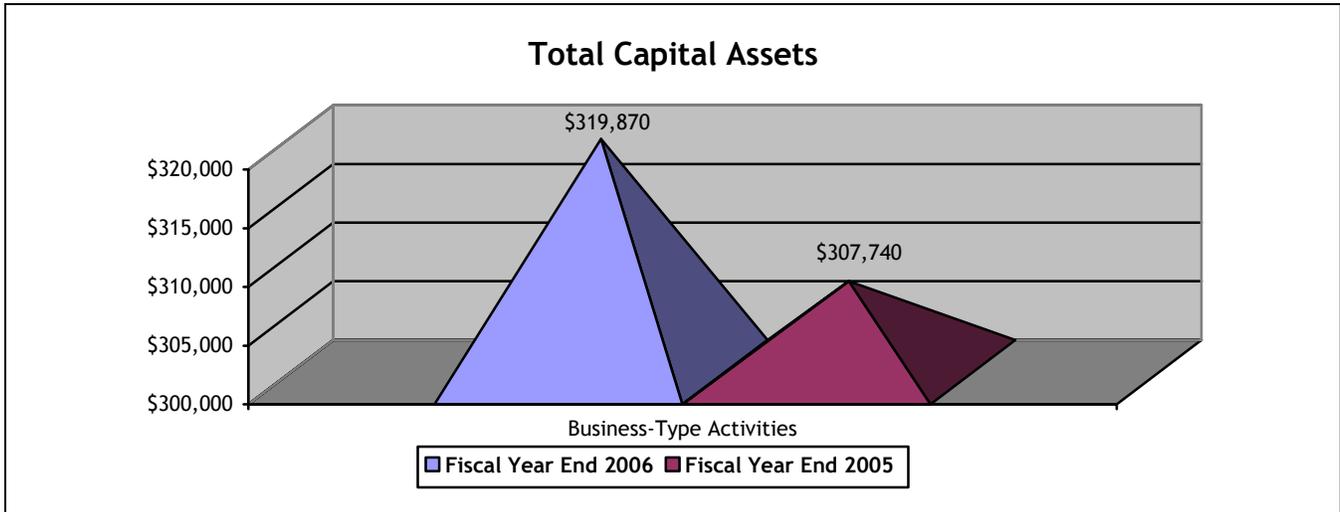


Change in Capital Assets September 30, 2006

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------|----------------------------|-----------------------------|---------------------|
| Beginning Balance | \$ 4,657,674 | \$ 463,486 | \$ 5,121,160 |
| Additions | 157,088 | 41,787 | 198,875 |
| Deletions | (34,421) | (21,152) | (55,573) |
| Accumulated Depreciation | <u>(1,710,163)</u> | <u>(164,251)</u> | <u>(1,874,414)</u> |
| Ending Balance | <u>\$ 3,070,178</u> | <u>\$ 319,870</u> | <u>\$ 3,390,048</u> |

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 \$1,663,952 in bonds, certificates, revenue bonds, and tax anticipation notes (TANS) a decrease of 2.2% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt.

| City of San Antonio's Outstanding Debt September 30, 2006 and 2005 | | | |
|---|--------------------------|--------------|--|
| | Governmental Activities | | |
| | 2006 | 2005 | |
| Bonds Payable: | | | |
| General Obligation Bonds | \$ 623,075 | \$ 658,450 | |
| Tax-Exempt Certificate of Obligation | 183,455 | 194,675 | |
| Taxable Certificates of Obligation | 6,170 | 6,850 | |
| Tax Anticipation Notes | 37,600 | | |
| Revenue Bonds | 551,767 | 556,152 | |
| Total | \$ 1,402,067 | \$ 1,416,127 | |
| | | | |
| | Business-Type Activities | | |
| | 2006 | 2005 | |
| Bonds Payable: | | | |
| General Obligation Bonds | \$ - | \$ 12,115 | |
| Revenue Bonds | 261,885 | 272,100 | |
| Total | \$ 261,885 | \$ 284,215 | |

On September 30, 2006, outstanding bonds, certificates and tax notes debt totaled \$1,402,067 for governmental activities. In 2006, the City issued additional indebtedness for a total of \$70,690. The \$70,690 was composed of \$33,090 in general obligation forward refunding bonds and \$37,600 in tax notes. The general obligation forward refunding bonds were utilized to refund a portion of the City's outstanding tax supported debt and pay issuance costs. Additionally, in July 2006 the City issued \$37,600 in tax notes that were utilized for: (1) constructing public safety improvements, including construction of new fire stations and renovating and improving existing fire stations and the Services Facility; (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto; (3) constructing improvements and renovations to existing municipal facilities or other public facilities, including the Plaza de Armas Building, Records Storage Facility, and Pearsall Landfill; (4) acquiring, constructing, renovating and improving the City's library system; (5) acquiring, constructing, and renovating park facilities, including Brackenridge Park, LaVillita Assembly Hall Complex, and the Normoyle Community Center; (6) acquiring land for park facilities; (7) constructing utility system and other infrastructure improvements at Kelly USA; (8) constructing and equipping certain downtown public restroom facilities; and (9) constructing public health and safety improvements, including acquisition, design and construction of Emergency Operations Center, Animal Care Facility and Medical Center Area Senior Multi-Services and Health Center.

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

| | Standard & Poor's | Moody's | Fitch |
|---|----------------------|---------|-------|
| General Obligation/ Certificates of Obligation | AA+ | Aa2 | AA+ |
| Airport | A+ | A1 | A+ |
| Airport PFC | A- | A2 | A+ |
| Convention Center - Prior Lien | A+ | A1 | A+ |
| Convention Center - Subordinate Lien | A+ | A2 | A |
| Parking | A+ | A2 | A+ |
| Drainage | AA- | A1 | A+ |

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. 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 ended 2006 was \$56,750,907, which provides a debt ceiling of \$5,675,091.

Currently Known Facts

The City issued numerous debt issuances after fiscal year end. In September 2006, a \$72,620 Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006, was issued and was delivered in October 2006. In November 2006, the City issued a \$170,785 General Improvement and Refunding Bonds, Series 2006 and a \$17,850 Airport System Revenue Refunding Bonds, Series 2006. In May 2007, the City approved the issuance of \$60,000 in Tax Notes, Series 2007. Additionally in May 2007, the City held an election on \$550,000 in general obligation bonds, which were approved by the voters. For more information on these issuances, please see Note 17, Subsequent Events.

In May 2007, the City approved new collective bargaining agreements with the International Association of Fire Fighters Local 624 and with the San Antonio Police Officer's Association, the amounts of \$44,400 and \$43,500, respectively. The terms of these contracts run through September 30, 2009. For more information on these contracts, please see Note 17, Subsequent Events.

Requests for Information

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

City of San Antonio, Texas



Basic Financial Statements

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets

As of September 30, 2006

(in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|----------------------------|-----------------------------|---------------------|---------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 25,183 | \$ 1,532 | \$ 26,715 | \$ 127,541 |
| Investments | 291,137 | 20,208 | 311,345 | 267,139 |
| Receivables, Net | 103,317 | 8,711 | 112,028 | 209,774 |
| Due from: | | | | |
| Fiduciary Funds | 600 | | 600 | |
| Other Governmental Agencies, Net | 3,373 | | 3,373 | 2,429 |
| Internal Balances | 6,297 | (6,297) | | |
| Materials and Supplies, at Cost | 5,954 | 730 | 6,684 | 154,393 |
| Prepaid Expenses | 1,209 | 17 | 1,226 | 57,252 |
| Deposits | 38 | | 38 | |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 116,830 | 19,620 | 136,450 | 66,414 |
| Investments | 452,039 | 194,838 | 646,877 | 1,408,887 |
| Receivables | 46,389 | | 46,389 | |
| Accrued Interest | 4,202 | 2,191 | 6,393 | 7,187 |
| Deposits | 261 | | 261 | |
| Due from: | | | | |
| Other Governmental Agencies | 2,276 | | 2,276 | |
| Capital Assets: | | | | |
| Non Depreciable | 1,541,669 | 117,308 | 1,658,977 | 986,053 |
| Depreciable, Net | 1,528,509 | 202,562 | 1,731,071 | 6,516,108 |
| Assets Held for Resale | | | | 2,760 |
| Prepaid Rent Long-Term - Leaseback | | | | 496,392 |
| Unamortized Debt Expense | 21,474 | 4,245 | 25,719 | 41,777 |
| Total Assets | <u>4,150,757</u> | <u>565,665</u> | <u>4,716,422</u> | <u>10,344,106</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Current Liabilities | 102,506 | 19,314 | 121,820 | 320,589 |
| Unearned Revenues | 12,654 | 435 | 13,089 | 2,498 |
| Accrued Interest | | 3,422 | 3,422 | 165,850 |
| Due to: | | | | |
| Other Governmental Agencies | 802 | | 802 | 1,066 |
| Restricted Liabilities: | | | | |
| Accounts Payable - Other | 48,048 | | 48,048 | 13,712 |
| Unearned Revenue | 11,738 | | 11,738 | |
| Accrued Interest | 10,626 | | 10,626 | |
| Due to: | | | | |
| Other Governmental Agencies | 3,203 | | 3,203 | |
| Noncurrent Liabilities: | | | | |
| Due within One Year | 137,069 | 11,414 | 148,483 | 1,050,336 |
| Due in More Than One Year | 1,538,111 | 255,376 | 1,793,487 | 4,387,234 |
| Total Liabilities | <u>1,864,757</u> | <u>289,961</u> | <u>2,154,718</u> | <u>5,941,285</u> |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,998,751 | 240,764 | 2,239,515 | 3,153,148 |
| Restricted for: | | | | |
| Debt Service | 91,740 | 27,700 | 119,440 | 23,920 |
| Equipment Renewal and Replacement Conservation | | | | 669,066 |
| Perpetual Care: | | | | 180,389 |
| Expendable | 3,102 | | 3,102 | |
| Nonexpendable | 10,182 | | 10,182 | |
| Unrestricted | 182,225 | 7,240 | 189,465 | 376,298 |
| Total Net Assets | <u>\$ 2,286,000</u> | <u>\$ 275,704</u> | <u>\$ 2,561,704</u> | <u>\$ 4,402,821</u> |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Activities

Year Ended September 30, 2006

(In Thousands)

| FUNCTION/PROGRAM ACTIVITIES | EXPENSES | PROGRAM REVENUES | | |
|---------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 62,230 | \$ 66,575 | \$ 867 | \$ 7 |
| Public Safety | 455,341 | 9,320 | 8,347 | 1,958 |
| Public Works | 201,941 | 37,472 | 3,864 | |
| Sanitation | 3,112 | | | 260 |
| Health Services | 87,283 | 15,852 | 40,108 | 46 |
| Culture and Recreation | 90,521 | 18,947 | 6,057 | |
| Convention and Tourism | 81,098 | 19,659 | | |
| Conservation | 146 | | | |
| Urban Redevelopment and Housing | 16,821 | 126 | 19,479 | |
| Welfare | 134,554 | 341 | 111,888 | |
| Economic Development Opportunity | 58,388 | 3,135 | 4,494 | |
| Interest on Long-Term Debt | 65,960 | | | |
| Total Governmental Activities | 1,257,395 | 171,427 | 195,104 | 2,271 |
| Business-Type Activities: | | | | |
| Airport System | 53,821 | 49,997 | | 7,710 |
| Parking Facilities | 9,191 | 10,273 | | |
| Environmental Services | 61,318 | 60,090 | | |
| Total Business-Type Activities | 124,330 | 120,360 | | 7,710 |
| Total Primary Government | \$ 1,381,725 | \$ 291,787 | \$ 195,104 | \$ 9,981 |
| Component Units: | | | | |
| San Antonio Water System | \$ 300,128 | \$ 328,170 | \$ | \$ 81,409 |
| CPS Energy | 1,699,090 | 1,682,719 | | 68,090 |
| Other Component Units | 55,323 | 16,757 | | 64,854 |
| Total Component Units | \$ 2,054,541 | \$ 2,027,646 | \$ | \$ 214,353 |

General Revenues:

Taxes:

- Property Taxes
- General Sales and Use Taxes
- Selective Sales and Use Taxes
- Gross Receipts Business Taxes
- Occupancy Taxes
- Penalties and Interest on Delinquent Taxes
- Revenues from Utilities
- Investment Earnings
- Miscellaneous
- Gain on Sale of Capital Assets
- Special Items
- Transfers, net

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets - Beginning of Fiscal Year

Prior Period Adjustment

Net Assets - End of Fiscal Year

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

CITY OF SAN ANTONIO, TEXAS

Statement of Activities

Year Ended September 30, 2006

(In Thousands)

| NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|--|-----------------------------|--------------|--------------------|
| PRIMARY GOVERNMENT | | | |
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| \$ 5,219 | \$ - | \$ 5,219 | \$ - |
| (435,716) | | (435,716) | |
| (160,605) | | (160,605) | |
| (2,852) | | (2,852) | |
| (31,277) | | (31,277) | |
| (65,517) | | (65,517) | |
| (61,439) | | (61,439) | |
| (146) | | (146) | |
| 2,784 | | 2,784 | |
| (22,325) | | (22,325) | |
| (50,759) | | (50,759) | |
| (65,960) | | (65,960) | |
| (888,593) | | (888,593) | |
| | 3,886 | 3,886 | |
| | 1,082 | 1,082 | |
| | (1,228) | (1,228) | |
| | 3,740 | 3,740 | |
| (888,593) | 3,740 | (884,853) | |
| | | | 109,451 |
| | | | 51,719 |
| | | | 26,288 |
| | | | 187,458 |
| 276,728 | | 276,728 | |
| 210,141 | | 210,141 | |
| 4,932 | | 4,932 | |
| 30,415 | | 30,415 | |
| 58,678 | | 58,678 | |
| 3,851 | | 3,851 | |
| 256,541 | | 256,541 | |
| 38,385 | 10,023 | 48,408 | 69,862 |
| 14,881 | 10,958 | 25,839 | 6,448 |
| 2,427 | 64 | 2,491 | 3,525 |
| | 10,870 | 10,870 | (3,584) |
| 1,021 | (1,021) | | |
| 898,000 | 30,894 | 928,894 | 76,251 |
| 9,407 | 34,634 | 44,041 | 263,709 |
| 2,276,593 | 241,070 | 2,517,663 | 4,155,753 |
| | | | (16,641) |
| \$ 2,286,000 | \$ 275,704 | \$ 2,561,704 | \$ 4,402,821 |

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

CITY OF SAN ANTONIO, TEXAS

Balance Sheet
Governmental Funds
As of September 30, 2006

(In Thousands)

| | MAJOR FUNDS | | | | | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|------------------|--|--------------------------------|-----------------------------------|--------------------------------|
| | GENERAL | DEBT SERVICE | CONVENTION CENTER HOTEL FINANCE CORPORATION | CATEGORICAL GRANT-IN AID | NONMAJOR GOVERNMENTAL FUNDS | |
| Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 6,500 | \$ - | \$ - | \$ - | \$ 13,178 | \$ 19,678 |
| Investments | 72,846 | | | | 149,072 | 221,918 |
| Receivables | 100,329 | | | | 50,576 | 150,905 |
| Allowance for Uncollectibles | (24,006) | | | | (26,601) | (50,607) |
| Prepaid Expenditures | 190 | | | | | 190 |
| Due from: | | | | | | |
| Other Funds | 33,736 | | | | 3,738 | 37,474 |
| Other Governmental Agencies | 1,547 | | | | 1,782 | 3,329 |
| Materials and Supplies, at Cost | 3,045 | | | | 1,402 | 4,447 |
| Restricted Assets: | | | | | | |
| Cash and Cash Equivalents | | 14,141 | 15,489 | 181 | 87,019 | 116,830 |
| Investments | | 76,311 | 143,655 | 87 | 231,986 | 452,039 |
| Receivables | | 6,807 | 439 | 24,686 | 18,659 | 50,591 |
| Deposits | | | | | 261 | 261 |
| Due from: | | | | | | |
| Other Funds | | 791 | | 238 | 5,928 | 6,957 |
| Other Governmental Agencies | | | | 50 | 2,226 | 2,276 |
| Total Assets | \$ 194,187 | \$ 98,050 | \$ 159,583 | \$ 25,242 | \$ 539,226 | \$ 1,016,288 |
| Liabilities and Fund Balances: | | | | | | |
| Liabilities: | | | | | | |
| Vouchers Payable | \$ 3,996 | \$ - | \$ - | \$ - | \$ 10,947 | \$ 14,943 |
| Accounts Payable - Other | 4,967 | | | | 6,520 | 11,487 |
| Accrued Payroll | 9,706 | | | | 2,248 | 11,954 |
| Accrued Leave Payable | 5,618 | | | | 1,366 | 6,984 |
| Unearned Revenues | 6,743 | | | | 5,908 | 12,651 |
| Due to: | | | | | | |
| Other Funds | 1,654 | | | | 10,754 | 12,408 |
| Other Governmental Agencies | 27 | | | | 64 | 91 |
| Restricted Liabilities: | | | | | | |
| Vouchers Payable | | | 4,064 | 4,515 | 2,744 | 11,323 |
| Accounts Payable - Other | | | 2,429 | 3,256 | 30,208 | 35,893 |
| Accrued Payroll | | | | 703 | 129 | 832 |
| Unearned Revenues | | 5,607 | | 5,703 | 7,316 | 18,626 |
| Due to: | | | | | | |
| Other Funds | | | | 21,747 | 8,243 | 29,990 |
| Other Governmental Agencies | | | | 147 | 3,056 | 3,203 |
| Total Liabilities | 32,711 | 5,607 | 6,493 | 36,071 | 89,503 | 170,385 |
| Fund Balances: | | | | | | |
| Reserved: | | | | | | |
| Reserved for Encumbrances | 8,631 | | 3,697 | | 165,688 | 178,016 |
| Reserved for Material and Supplies | 3,045 | | | | 1,402 | 4,447 |
| Reserved for Prepaid Expenditures | 190 | | | | | 190 |
| Reserved for Debt Service | | 92,443 | | | | 92,443 |
| Unreserved: | | | | | | |
| Designated: Major Funds | 47,087 | | | | | 47,087 |
| Designated: Special Revenue Funds | | | | | 2,518 | 2,518 |
| Designated: Permanent Funds | | | | | 3,102 | 3,102 |
| Undesignated: Major Funds | 102,523 | | | | | 102,523 |
| Undesignated: Special Revenue Funds | | | | (10,829) | 177,287 | 166,458 |
| Undesignated: Capital Projects Funds | | | 149,393 | | 89,553 | 238,946 |
| Undesignated: Permanent Funds | | | | | 10,173 | 10,173 |
| Total Fund Balances | 161,476 | 92,443 | 153,090 | (10,829) | 449,723 | 845,903 |
| Total Liabilities and Fund Balances | \$ 194,187 | \$ 98,050 | \$ 159,583 | \$ 25,242 | \$ 539,226 | \$ 1,016,288 |

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

Reconciliation of the Balance Sheet to the Statement of Net Assets

Governmental Activities

As of September 30, 2006

(In Thousands)

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

| | | | |
|---|--------------------|-----------|-------------------------|
| Fund Balances - Total Governmental Funds | | \$ | 845,903 |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p> | | | |
| Governmental Capital Assets: | | | |
| Land | 1,289,520 | | |
| Construction in Progress | 252,149 | | |
| Buildings | 633,904 | | |
| Improvements | 145,533 | | |
| Infrastructure | 2,151,113 | | |
| Machinery and Equipment | 177,873 | | |
| Less: Accumulated Depreciation | <u>(1,630,475)</u> | | |
| Total Governmental Capital Assets | | | 3,019,617 |
| <p>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).</p> | | | |
| | | | 8,750 |
| <p>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 reported with governmental activities in the Statement of Net Assets.</p> | | | |
| | | | 65,611 |
| <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds (See Note 14).</p> | | | |
| Governmental Bonds Payable | (1,417,507) | | |
| Premium on Bonds | (48,189) | | |
| Deferred Amount on Refunding | 8,598 | | |
| Leases Payable | (9,436) | | |
| Amounts Received from Notes and Loans | (58,005) | | |
| Other Payables | (8,003) | | |
| Unamortized Debt Expense | 21,474 | | |
| Accrued Interest | (10,626) | | |
| Arbitrage Rebate | (401) | | |
| Compensated Absences | <u>(131,786)</u> | | |
| | | | <u>(1,653,881)</u> |
| Net Assets of Governmental Activities | | \$ | <u>2,286,000</u> |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended September 30, 2006

(In Thousands)

| | MAJOR FUNDS | | | | | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|------------------|--|--------------------------------|-----------------------------------|--------------------------------|
| | GENERAL | DEBT SERVICE | CONVENTION | CATEGORICAL GRANT-IN AID | NONMAJOR GOVERNMENTAL FUNDS | |
| | | | CENTER HOTEL FINANCE CORPORATION | | | |
| Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property Taxes | \$ 183,566 | \$ 103,816 | \$ - | \$ - | \$ 1,966 | \$ 289,348 |
| General Sales and Use Taxes | 177,806 | | | | 32,335 | 210,141 |
| Selective Sales and Use Taxes | 4,932 | | | | | 4,932 |
| Gross Receipts Business Taxes | 30,823 | | | | | 30,823 |
| Occupancy Taxes | | | | | 58,672 | 58,672 |
| Penalties and Interest on Delinquent Taxes | 2,233 | 1,204 | | | 26 | 3,463 |
| Licenses and Permits | 19,765 | | | | | 19,765 |
| Intergovernmental | 3,446 | | | 152,361 | 36,478 | 192,285 |
| Revenues from Utilities | 256,368 | | | | | 256,368 |
| Charges for Services | 35,277 | | | | 85,264 | 120,541 |
| Fines and Forfeits | 10,948 | | | | | 10,948 |
| Miscellaneous | 8,426 | 272 | | 2,540 | 16,067 | 27,305 |
| Contributions | | | 19,871 | | | 19,871 |
| Investment Earnings | 5,404 | 4,751 | 5,626 | | 20,049 | 35,830 |
| In-Kind Contributions | | | | 15,617 | | 15,617 |
| Total Revenues | 738,994 | 110,043 | 25,497 | 170,518 | 250,857 | 1,295,909 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General Government | 66,956 | | | 995 | 12,721 | 80,672 |
| Public Safety | 427,598 | | | 9,571 | 3,062 | 440,231 |
| Public Works | 10,769 | | | 10,522 | 98,406 | 119,697 |
| Health Services | 12,033 | | | 17,640 | 56,585 | 86,258 |
| Sanitation | 2,857 | | | 280 | | 3,137 |
| Welfare | 21,739 | | | 115,369 | 603 | 137,711 |
| Culture and Recreation | 71,496 | | | 2,398 | 13,242 | 87,136 |
| Convention and Tourism | | | 35,251 | | 52,258 | 87,509 |
| Urban Redevelopment and Housing | | | | 1,509 | 16,029 | 17,538 |
| Economic Development and Opportunity | 3,973 | | | 267 | 7,438 | 11,678 |
| Capital Projects | | | | | 115,229 | 115,229 |
| Debt Service: | | | | | | |
| Principal Retirement | | 61,865 | | | | 61,865 |
| Interest | | 61,406 | 10,442 | | | 71,848 |
| Bond Escrow Agent | | 5 | | | | 5 |
| Issuance Costs | | 429 | | | | 429 |
| Total Expenditures | 617,421 | 123,705 | 45,693 | 158,551 | 375,573 | 1,320,943 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 121,573 | (13,662) | (20,196) | 11,967 | (124,716) | (25,034) |
| Other Financing Sources (Uses) | | | | | | |
| Long-Term Debt Issued | | 33,090 | | | 37,600 | 70,690 |
| Payments to Refunded Bond Escrow Agent | | (34,927) | | | | (34,927) |
| Amounts from Notes and Loans | | | | | 63,218 | 63,218 |
| Premium on Long-Term Debt | | 2,251 | | | | 2,251 |
| Transfers In | 11,467 | 20,564 | | 6,766 | 189,244 | 228,041 |
| Transfers Out | (89,977) | | | (25,628) | (115,685) | (231,290) |
| Total Other Financing Sources (Uses) | (78,510) | 20,978 | | (18,862) | 174,377 | 97,983 |
| Net Change in Fund Balances | 43,063 | 7,316 | (20,196) | (6,895) | 49,661 | 72,949 |
| Fund Balances, October 1 | 118,413 | 85,127 | 173,286 | (3,934) | 400,062 | 772,954 |
| Fund Balances, September 30 | \$ 161,476 | \$ 92,443 | \$ 153,090 | \$ (10,829) | \$ 449,723 | \$ 845,903 |

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2006

(In Thousands)

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

| | | |
|---|-----------|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 72,949 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.</p> | | |
| Expenditures for Capital Assets | 137,144 | |
| Less: Current Year Deletions | (24,142) | |
| Less: Current Year Depreciation | (116,261) | (3,259) |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | | (15,208) |
| <p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments (See Note 14).</p> | | |
| Bond and Loan Amounts | (136,159) | |
| Other Long-Term Liabilities | (20,118) | |
| Payments to Escrow Agent | 34,927 | |
| Amortization of Bond Premiums and Deferred Charges, Net | (3,057) | |
| Principal Payments | 61,865 | (62,542) |
| <p>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).</p> | | |
| | | 2,597 |
| <p>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.</p> | | |
| | | 14,870 |
| Change in Net Assets of Governmental Activities | \$ | 9,407 |

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2006

(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES |
|---------------------------------------|--|-------------------|--|-------------------|------------------------------|
| | AIRPORT SYSTEM | PARKING SYSTEM | NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES | TOTAL | INTERNAL SERVICE FUNDS |
| | | | | | |
| Assets: | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 1,116 | \$ 374 | \$ 42 | \$ 1,532 | \$ 5,505 |
| Investments | 14,100 | 5,574 | 534 | 20,208 | 69,219 |
| Receivables: | | | | | |
| Other Accounts | 3,482 | 83 | 150 | 3,715 | 1,869 |
| Less: Allowance for Uncollectibles | (859) | (53) | | (912) | (149) |
| Accrued Interest | 172 | 52 | 1 | 225 | 733 |
| Accrued Revenue | 833 | | 4,850 | 5,683 | 1 |
| Due from Other Funds | 1,068 | 85 | 48 | 1,201 | 1,013 |
| Due from Other Governmental Agencies | | | | | 67 |
| Less: Allowance for Uncollectibles | | | | | (23) |
| Materials and Supplies, at Cost | 511 | 208 | 11 | 730 | 1,507 |
| Prepaid Expenses | 17 | | | 17 | 1,019 |
| Deposits | | | | | 38 |
| Total Current Assets | 20,440 | 6,323 | 5,636 | 32,399 | 80,799 |
| Noncurrent Assets: | | | | | |
| Restricted Assets: | | | | | |
| Debt Service Accounts: | | | | | |
| Cash and Cash Equivalents | 5,600 | 1,524 | | 7,124 | |
| Investments | 22,730 | 480 | | 23,210 | |
| Receivables - Accrued Interest | 270 | 10 | | 280 | |
| Due from Other Funds | 130 | | | 130 | |
| Construction Accounts: | | | | | |
| Cash and Cash Equivalents | 9,235 | | 31 | 9,266 | |
| Investments | 118,414 | 7,644 | 390 | 126,448 | |
| Receivables - Accrued Interest | 1,330 | 81 | 39 | 1,450 | |
| Due from Other Funds | | | | | |
| Improvement and Contingency Accounts: | | | | | |
| Cash and Cash Equivalents | 3,032 | 137 | 38 | 3,207 | |
| Investments | 42,696 | 1,714 | 476 | 44,886 | |
| Receivables - Accrued Interest | 391 | 19 | 5 | 415 | |
| Other Restricted Accounts: | | | | | |
| Cash and Cash Equivalents | 23 | | | 23 | |
| Investments | 294 | | | 294 | |
| Receivables - Accrued Interest | 46 | | | 46 | |
| Due from Other Funds | 56 | | | 56 | |
| Total Restricted Assets | 204,247 | 11,609 | 979 | 216,835 | |
| Capital Assets: | | | | | |
| Land | 2,970 | 8,125 | 893 | 11,988 | |
| Buildings | 144,248 | 30,136 | 46 | 174,430 | 178 |
| Improvements | 170,860 | 2,095 | 3,622 | 176,577 | 530 |
| Machinery and Equipment | 11,359 | 579 | 3,868 | 15,806 | 129,541 |
| Construction in Progress | 103,986 | 1,334 | | 105,320 | |
| Total Capital Assets | 433,423 | 42,269 | 8,429 | 484,121 | 130,249 |
| Less: Accumulated Depreciation | 149,350 | 11,094 | 3,807 | 164,251 | 79,688 |
| Net Capital Assets | 284,073 | 31,175 | 4,622 | 319,870 | 50,561 |
| Unamortized Debt Expense | 3,708 | 537 | | 4,245 | |
| Total Noncurrent Assets | 492,028 | 43,321 | 5,601 | 540,950 | 50,561 |
| Total Assets | \$ 512,468 | \$ 49,644 | \$ 11,237 | \$ 573,349 | \$ 131,360 |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2006
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES |
|---|--|-------------------|--|-------------------|------------------------------|
| | AIRPORT SYSTEM | PARKING SYSTEM | NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES | TOTAL | INTERNAL SERVICE FUNDS |
| | | | | | |
| Liabilities: | | | | | |
| Current Liabilities: | | | | | |
| Payable from Current Assets: | | | | | |
| Vouchers Payable | \$ 528 | \$ 41 | \$ 1,637 | \$ 2,206 | \$ 7,345 |
| Accounts Payable-Other | 9,039 | 102 | 2,163 | 11,304 | 55,774 |
| Accrued Payroll | 563 | 114 | 651 | 1,328 | 1,003 |
| Accrued Leave Payable | 236 | 32 | 258 | 526 | 439 |
| Unearned Revenues | 425 | 10 | | 435 | 1,300 |
| Accrued Interest | | | 1 | 1 | |
| Lease Purchase | | | | | 293 |
| Due to Other Funds | | | | | 2,494 |
| Total Payable from Current Assets | <u>10,791</u> | <u>299</u> | <u>4,710</u> | <u>15,800</u> | <u>68,648</u> |
| Payable from Restricted Assets: | | | | | |
| Vouchers Payable | 4,392 | 82 | 2 | 4,476 | |
| Accrued Bond and Certificate Interest | 3,205 | 216 | | 3,421 | |
| Current Portion of Bonds and Certificates | 9,605 | 620 | | 10,225 | |
| Due to Other Funds | 1,254 | 85 | | 1,339 | |
| Lease Purchase | | | 115 | 115 | |
| Other Payables | 198 | 7 | 343 | 548 | |
| Payable from Restricted Assets | <u>18,654</u> | <u>1,010</u> | <u>460</u> | <u>20,124</u> | |
| Total Current Liabilities | <u>29,445</u> | <u>1,309</u> | <u>5,170</u> | <u>35,924</u> | <u>68,648</u> |
| Noncurrent Liabilities: | | | | | |
| Revenue Bonds, Net of Current Portion | 228,885 | 22,775 | | 251,660 | |
| Unamortized Premium/Discount on New Series | 3,464 | 349 | | 3,813 | |
| Less: Deferred Amount on Refunding | (2,987) | (403) | | (3,390) | |
| Accrued Leave Payable | 1,182 | 158 | 1,292 | 2,632 | 2,197 |
| Lease Purchase | | | | | 538 |
| Due to Other Governmental Agencies | | | | | 711 |
| Other Payables | | | 661 | 661 | |
| Total Noncurrent Liabilities | <u>230,544</u> | <u>22,879</u> | <u>1,953</u> | <u>255,376</u> | <u>3,446</u> |
| Total Liabilities | <u>259,989</u> | <u>24,188</u> | <u>7,123</u> | <u>291,300</u> | <u>72,094</u> |
| Net Assets: | | | | | |
| Invested In Capital Assets, Net of Related Debt | 218,101 | 18,041 | 4,622 | 240,764 | 44,323 |
| Restricted: | | | | | |
| Debt Service | 25,911 | 1,789 | | 27,700 | |
| Unrestricted | 8,467 | 5,626 | (508) | 13,585 | 14,943 |
| Total Net Assets | <u>\$ 252,479</u> | <u>\$ 25,456</u> | <u>\$ 4,114</u> | <u>\$ 282,049</u> | <u>\$ 59,266</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | (6,345) | |
| | | | | <u>\$ 275,704</u> | |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended September 30, 2006

(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES |
|---|--|-------------------|--|------------------|------------------------------|
| | AIRPORT SYSTEM | PARKING SYSTEM | NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES | TOTAL | INTERNAL SERVICE FUNDS |
| | | | | | |
| Operating Revenues: | | | | | |
| Charges for Services | \$ 49,997 | \$ 10,273 | \$ 60,090 | \$ 120,360 | \$ 201,372 |
| Total Operating Revenues | <u>49,997</u> | <u>10,273</u> | <u>60,090</u> | <u>120,360</u> | <u>201,372</u> |
| Operating Expenses: | | | | | |
| Personal Services | 19,347 | 4,218 | 25,100 | 48,665 | 34,743 |
| Contractual Services | 4,094 | 346 | 19,796 | 24,236 | 14,973 |
| Commodities | 1,346 | 227 | 3,699 | 5,272 | 4,813 |
| Materials | | | | | 20,089 |
| Claims | | | | | 93,267 |
| Other | 5,196 | 1,113 | 12,295 | 18,604 | 17,695 |
| Depreciation | 7,635 | 860 | 424 | 8,919 | 13,042 |
| Total Operating Expenses | <u>37,618</u> | <u>6,764</u> | <u>61,314</u> | <u>105,696</u> | <u>198,622</u> |
| Operating Income (Loss) | <u>12,379</u> | <u>3,509</u> | <u>(1,224)</u> | <u>14,664</u> | <u>2,750</u> |
| Nonoperating Revenues (Expenses): | | | | | |
| Interest | 9,045 | 798 | 180 | 10,023 | 2,728 |
| Other Nonoperating Revenue | 10,369 | | 589 | 10,958 | 2,927 |
| Gain on Sale of Capital Assets | 61 | | 3 | 64 | 2,427 |
| Interest and Debt Expense | (12,747) | (1,247) | (13) | (14,007) | (37) |
| Other Nonoperating Expense | (3,590) | (1,232) | | (4,822) | |
| Total Nonoperating Revenues (Expenses) | <u>3,138</u> | <u>(1,681)</u> | <u>759</u> | <u>2,216</u> | <u>8,045</u> |
| Change in Net Assets before Contributions and Transfers | <u>15,517</u> | <u>1,828</u> | <u>(465)</u> | <u>16,880</u> | <u>10,795</u> |
| Capital Contributions | 7,710 | | | 7,710 | |
| Indebtedness Assumed by Governmental Activities | | 10,870 | | 10,870 | |
| Transfers In (Out) | | | | | |
| Transfers In | | 452 | 1,701 | 2,153 | 7,074 |
| Transfers Out | (191) | (1,417) | (1,566) | (3,174) | (2,804) |
| Total Transfers | <u>(191)</u> | <u>(965)</u> | <u>135</u> | <u>(1,021)</u> | <u>4,270</u> |
| Change in Net Assets | <u>23,036</u> | <u>11,733</u> | <u>(330)</u> | <u>34,439</u> | <u>15,065</u> |
| Net Assets - October 1 | <u>229,443</u> | <u>13,723</u> | <u>4,444</u> | | <u>44,201</u> |
| Net Assets - September 30 | <u>\$ 252,479</u> | <u>\$ 25,456</u> | <u>\$ 4,114</u> | | <u>\$ 59,266</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | 195 | |
| Change in Net Assets of Business-Type Activities | | | | <u>\$ 34,634</u> | |

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

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



CITY OF SAN ANTONIO, TEXAS

**Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006**
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | NONMAJOR ENTERPRISE FUND- | | TOTALS | GOVERNMENTAL ACTIVITIES |
|--|--|-------------------|---------------------------|---------------------------------|------------------------------|------------------|----------------------------|
| | AIRPORT SYSTEM | PARKING SYSTEM | ENVIRONMENTAL SERVICES | ENVIRONMENTAL SERVICES | INTERNAL SERVICE FUNDS | | |
| Cash Flows from Operating Activities: | | | | | | | |
| Cash Received from Customers | \$ 48,736 | \$ 10,367 | \$ 59,267 | | | \$ 118,370 | \$ 201,675 |
| Cash Payments to Suppliers for Goods and Services | (7,718) | (1,712) | (35,303) | | | (44,733) | (144,188) |
| Cash Payments to Employees for Service | (18,895) | (4,121) | (24,407) | | | (47,423) | (33,377) |
| Net Cash Provided by (Used for) Operating Activities | <u>22,123</u> | <u>4,534</u> | <u>(443)</u> | | | <u>26,214</u> | <u>24,110</u> |
| Cash Flows from Noncapital Financing Activities: | | | | | | | |
| Other Nonoperating Revenues | 10,369 | | 589 | | | 10,958 | 2,927 |
| Transfers In from Other Funds | | 452 | 1,701 | | | 2,153 | 7,074 |
| Transfers Out to Other Funds | (191) | (1,417) | (1,566) | | | (3,174) | (2,804) |
| Due to Other Funds | (4,223) | (13,609) | (409) | | | (18,241) | (10,783) |
| Due from Other Funds | 6,451 | 13,519 | 371 | | | 20,341 | 12,617 |
| Net Cash Provided by (Used for) Noncapital Financing Activities | <u>12,406</u> | <u>(1,055)</u> | <u>686</u> | | | <u>12,037</u> | <u>9,031</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | | | | |
| Acquisitions and Construction of Capital Assets | (14,210) | (43) | (124) | | | (14,377) | (17,921) |
| Principal Payments on Long-Term Debt | (9,615) | (600) | (148) | | | (10,363) | (96) |
| Interest Paid on Long-Term Debt | (12,853) | (1,338) | (13) | | | (14,204) | (226) |
| Principal Payments on Notes | | | | | | | (37) |
| Interest Paid on Notes | | | | | | | 2,427 |
| Proceeds from Sale of Assets | 61 | | 3 | | | 64 | |
| Net Cash (Used for) Capital and Related Financing Activities | <u>(36,617)</u> | <u>(1,981)</u> | <u>(282)</u> | | | <u>(38,880)</u> | <u>(15,853)</u> |
| Cash Flows from Investing Activities: | | | | | | | |
| Purchases of Investment Securities | (419,314) | (32,162) | (2,907) | | | (454,383) | (18,876) |
| Maturity of Investment Securities | 411,924 | 28,547 | 2,585 | | | 443,056 | 2,386 |
| Investment Earnings | 8,115 | 741 | 180 | | | 9,036 | |
| Net Cash Provided by (Used for) Investing Activities | <u>725</u> | <u>(2,874)</u> | <u>(142)</u> | | | <u>(2,291)</u> | <u>(16,490)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(1,363)</u> | <u>(1,376)</u> | <u>(181)</u> | | | <u>(2,920)</u> | <u>798</u> |
| Cash and Cash Equivalents, October 1 | 20,369 | 3,411 | 292 | | | 24,072 | 4,707 |
| Cash and Cash Equivalents, September 30 | <u>\$ 19,006</u> | <u>\$ 2,035</u> | <u>\$ 111</u> | | | <u>\$ 21,152</u> | <u>\$ 5,505</u> |

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

CITY OF SAN ANTONIO, TEXAS

**Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006**
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | NONMAJOR ENTERPRISE FUND- | | INTERNAL SERVICE FUNDS |
|--|--|-------------------|---------------------------|---------------------------------|----------------------------|------------------------------|
| | AIRPORT SYSTEM | PARKING SYSTEM | ENVIRONMENTAL SERVICES | TOTALS | GOVERNMENTAL ACTIVITIES | |
| Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities: | | | | | | |
| Operating Income (Loss) | \$ 12,379 | \$ 3,509 | \$ (1,224) | \$ 14,664 | \$ 2,750 | |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | | | | |
| Depreciation | 7,635 | 860 | 424 | 8,919 | 13,042 | |
| Changes in Assets and Liabilities: | | | | | | |
| (Increase) Decrease in Other Accounts Receivable | (1,464) | 31 | (133) | (1,566) | (902) | |
| (Increase) Decrease in Allowance for Uncollectibles | 419 | 53 | | 472 | (96) | |
| (Increase) Decrease in Accrued Revenues | (45) | | (690) | (735) | 2 | |
| Decrease in Due from Other Governmental Agencies | | | | | 692 | |
| (Increase) Decrease in Materials and Supplies | (11) | 1 | (2) | (12) | 539 | |
| (Increase) in Prepaid Expenses | | | | | (290) | |
| Decrease in Deposits | | | | | 243 | |
| Increase (Decrease) in Vouchers Payable | 131 | (18) | 468 | 581 | 3,379 | |
| Increase (Decrease) in Accounts Payable Other | 2,798 | (9) | 21 | 2,810 | 2,778 | |
| Increase (Decrease) in Accrued Payroll | 76 | 5 | 5 | 86 | (41) | |
| Increase in Accrued Leave Payable | 376 | 92 | 688 | 1,156 | 1,407 | |
| Increase (Decrease) in Unearned Revenue | (171) | 10 | | (161) | 607 | |
| Net Cash Provided by (Used for) Operating Activities | \$ 22,123 | \$ 4,534 | \$ (443) | \$ 26,214 | \$ 24,110 | |
| Noncash Investing, Capital and Financing Activities: | | | | | | |
| Indebtedness Assumed by Governmental Activities | \$ - | \$ 10,870 | \$ - | \$ 10,870 | \$ - | |

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

Statement of Fiduciary Net Assets/Balance Sheet

Fiduciary Funds

As of September 30, 2006

(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUNDS | AGENCY FUNDS |
|--|---|--------------------------------------|-----------------|
| Assets: | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 191,295 | \$ 13 | \$ 7,296 |
| Security Lending Collateral | 226,748 | | |
| Investments, at Fair Value: | | | |
| U.S. Government and Agency Issues | 147,148 | | 1,257 |
| Corporate Bonds | 140,558 | | |
| Preferred and Common Stock | 69,129 | | |
| Other | 1,493,148 | 20 | |
| Total Investments, at Fair Value | 1,849,983 | 20 | 1,257 |
| Receivables: | | | |
| Other Accounts | 6,295 | | 556 |
| Accrued Interest | 6,894 | | 11 |
| Accrued Revenue | 1,659 | | |
| Prepayments | 12 | | |
| Total Current Assets | 2,282,886 | 33 | 9,120 |
| Capital Assets: | | | |
| Computer Equipment | 76 | | |
| Buildings | 681 | | |
| Total Capital Assets | 757 | | |
| Less: Accumulated Depreciation | 366 | | |
| Net Capital Assets | 391 | | |
| Total Assets | 2,283,277 | 33 | \$ 9,120 |
| Liabilities: | | | |
| Vouchers Payable | 2,465 | | - |
| Accounts Payable - Other | 8,562 | | 8,520 |
| Accrued Payroll | 107 | | |
| Due to Other Funds | | | 600 |
| Unearned Revenue | 308 | | |
| Securities Lending | 226,748 | | |
| Total Liabilities | 238,190 | | \$ 9,120 |
| Net Assets: | | | |
| Held in Trust for Pension Benefits and Other Purposes | \$ 2,045,087 | \$ 33 | |

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, 2006

(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUNDS |
|---|---|--------------------------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 72,202 | \$ - |
| Employee | 26,369 | |
| Other Contributions | | 1 |
| Total Contributions | <u>98,571</u> | <u>1</u> |
| Investment Earnings: | | |
| Net Increase in Fair Value of Investments | 148,990 | |
| Real Estate Income, Net | 9,325 | |
| Interest and Dividends | 37,187 | 1 |
| Securities Lending | 9,507 | |
| Other Income | 1,481 | |
| Total Investment Earnings | <u>206,490</u> | <u>1</u> |
| Less Investment Expenses: | | |
| Investment Management Fees and Custodian Fees | (11,791) | |
| Securities Lending Expenses: | | |
| Borrower Rebates | (8,956) | |
| Lending Fees | (193) | |
| Net Investment Income | <u>185,550</u> | <u>1</u> |
| Total Additions | <u>284,121</u> | <u>2</u> |
| Deductions: | | |
| Benefits | 90,069 | |
| Refunds of Contributions | 371 | |
| Administrative Expense | 1,655 | |
| Salaries, Wage, and Employee Benefits | 564 | |
| Total Deductions | <u>92,659</u> | |
| Change in Net Assets | <u>191,462</u> | <u>2</u> |
| Net Assets - October 1 | <u>1,853,625</u> | <u>31</u> |
| Net Assets - September 30 | <u>\$ 2,045,087</u> | <u>\$ 33</u> |

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

Statement of Net Assets

Component Units

As of September 30, 2006

(In Thousands)

| | SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | TOTAL |
|--------------------------------------|--------------------------------|---------------------|--------------------------------|----------------------|
| Assets: | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 11,891 | \$ 96,548 | \$ 19,102 | \$ 127,541 |
| Investments | 115,716 | 145,993 | 5,430 | 267,139 |
| Receivables: | | | | |
| Notes | | | 11,764 | 11,764 |
| Other Accounts | 40,530 | 117,071 | 3,316 | 160,917 |
| Accrued Interest | 880 | 36,091 | 122 | 37,093 |
| Materials and Supplies, at Cost | 4,786 | 149,545 | 62 | 154,393 |
| Due from Other Governmental Agencies | | | 2,429 | 2,429 |
| Prepaid Expenses | 2,111 | 55,057 | 84 | 57,252 |
| Total Current Assets | 175,914 | 600,305 | 42,309 | 818,528 |
| Noncurrent Assets: | | | | |
| Restricted Assets: | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 39 | 685 | | 724 |
| Investments | 24,219 | 2,895 | | 27,114 |
| Receivables-Accrued Interest | | 2 | | 2 |
| Construction Accounts: | | | | |
| Cash and Cash Equivalents | 5,328 | 1 | | 5,329 |
| Investments | 171,509 | 103,174 | | 274,683 |
| Receivables-Accrued Interest | | 881 | | 881 |
| Repair and Replacement Account: | | | | |
| Cash and Cash Equivalents | | 11,338 | | 11,338 |
| Investments | | 650,525 | | 650,525 |
| Receivables - Accrued Interest | | 4,147 | | 4,147 |
| Conservation Accounts: | | | | |
| Investments | 2,409 | | | 2,409 |
| Other Restricted Accounts: | | | | |
| Cash and Cash Equivalents | | 41,806 | 7,217 | 49,023 |
| Investments | 6,211 | 447,945 | | 454,156 |
| Receivables - Accrued Interest | | 2,157 | | 2,157 |
| Total Restricted Assets | 209,715 | 1,265,556 | 7,217 | 1,482,488 |
| Capital Assets: | | | | |
| Land | 108,869 | 58,651 | 12,586 | 180,106 |
| Infrastructure | | | 46,033 | 46,033 |
| Buildings | | | 197,207 | 197,207 |
| Utility Plant in Service | 2,497,609 | 7,373,168 | | 9,870,777 |
| Machinery and Equipment | 109,764 | | 2,693 | 112,457 |
| Construction in Progress | 483,201 | 296,946 | 13,201 | 793,348 |
| Utility Property Leased | | 18,785 | | 18,785 |
| Nuclear Fuel, Net | | 485,055 | | 485,055 |
| Nonutility Property - Land | | 12,599 | | 12,599 |
| Total Capital Assets | 3,199,443 | 8,245,204 | 271,720 | 11,716,367 |
| Less: Accumulated Depreciation | 861,163 | 3,302,568 | 50,475 | 4,214,206 |
| Net Capital Assets | 2,338,280 | 4,942,636 | 221,245 | 7,502,161 |
| Assets Held for Resale | 2,760 | | | 2,760 |
| Prepaid Rent Long-Term - Leaseback | | 496,392 | | 496,392 |
| Unamortized Debt Expense | 13,761 | 28,016 | | 41,777 |
| Total Noncurrent Assets | 2,564,516 | 6,732,600 | 228,462 | 9,525,578 |
| Total Assets | \$ 2,740,430 | \$ 7,332,905 | \$ 270,771 | \$ 10,344,106 |

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

Statement of Net Assets

Component Units

As of September 30, 2006

(In Thousands)

| | SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | TOTAL |
|--|--------------------------------|---------------------|--------------------------------|---------------------|
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Payable from Current Assets: | | | | |
| Accounts Payable and Other Current Liabilities | \$ 33,540 | \$ 256,176 | \$ 26,963 | \$ 316,679 |
| Sewer Service Collections Payable | 276 | | | 276 |
| Unearned Revenues | | | 2,498 | 2,498 |
| Notes Payable | 425 | | 3,209 | 3,634 |
| Due to Other Governmental Agencies | | | 1,066 | 1,066 |
| Total Payable from Current Assets | 34,241 | 256,176 | 33,736 | 324,153 |
| Payable from Restricted Assets: | | | | |
| Accrued Bond and Certificate Interest | 8,280 | | | 8,280 |
| Current Portion of Bonds and Certificates | 22,415 | 135,155 | | 157,570 |
| Other Payables | 13,712 | | | 13,712 |
| Total Payable from Restricted Assets: | 44,407 | 135,155 | | 179,562 |
| Total Current Liabilities | 78,648 | 391,331 | 33,736 | 503,715 |
| Noncurrent Liabilities: | | | | |
| Revenue Bonds, Net of Current Portion | 1,351,510 | 2,832,730 | | 4,184,240 |
| Commercial Paper | 98,000 | 150,000 | | 248,000 |
| Unamortized Premium on New Series Bonds | 14,139 | 102,164 | | 116,303 |
| Plus: Unamortized Discount on New Series Bonds | (13,768) | | | (13,768) |
| Deferred Amount on Refunding | (26,243) | (121,298) | | (147,541) |
| Long-Term Lease/Notes Payable | 1,027 | 565,893 | 63,800 | 630,720 |
| Other Payables | 2,015 | 417,546 | 55 | 419,616 |
| Total Noncurrent Liabilities | 1,426,680 | 3,947,035 | 63,855 | 5,437,570 |
| Total Liabilities | 1,505,328 | 4,338,366 | 97,591 | 5,941,285 |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,057,178 | 1,949,167 | 146,803 | 3,153,148 |
| Restricted for Renewal and Replacement | | 666,010 | 3,056 | 669,066 |
| Restricted for Debt Service | 15,978 | 3,582 | 4,360 | 23,920 |
| Restricted for Conservation | 2,409 | 177,980 | | 180,389 |
| Unrestricted | 159,537 | 197,800 | 18,961 | 376,298 |
| Total Net Assets | \$ 1,235,102 | \$ 2,994,539 | \$ 173,180 | \$ 4,402,821 |

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

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



CITY OF SAN ANTONIO, TEXAS

**Statement of Activities
Component Units
Year Ended September 30, 2006**
(In Thousands)

| | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | TOTALS |
|---|---------------------|-------------------------|--|--|---------------------|--------------------------------|---------------------|
| | EXPENSES | CHARGES FOR SERVICES | CAPITAL GRANTS AND CONTRIBUTIONS | SAN ANTONIO WATER SYSTEM | CPS ENERGY | NONMAJOR COMPONENT UNITS | |
| | | | | | | | |
| San Antonio Water System | \$ 300,128 | \$ 328,170 | \$ 81,409 | \$ 109,451 | \$ - | \$ - | \$ 109,451 |
| CPS Energy | 1,699,090 | 1,682,719 | 68,090 | | 51,719 | | 51,719 |
| Nonmajor Component Units | 55,323 | 16,757 | 64,854 | | | 26,288 | 26,288 |
| Total | \$ 2,054,541 | \$ 2,027,646 | \$ 214,353 | \$ 109,451 | \$ 51,719 | \$ 26,288 | \$ 187,458 |
| General Revenues: | | | | | | | |
| Investment Earnings | | | | 11,168 | 57,219 | 1,475 | 69,862 |
| Miscellaneous | | | | | | 6,448 | 6,448 |
| Gain on Disposal of Capital Assets | | | | | | 3,525 | 3,525 |
| Special Items | | | | (3,584) | | | (3,584) |
| Total General Revenues and Special Items | | | | 7,584 | 57,219 | 11,448 | 76,251 |
| Change in Net Assets | | | | 117,035 | 108,938 | 37,736 | 263,709 |
| Net Assets - Beginning of Fiscal Year | | | | 1,127,844 | 2,885,601 | 142,308 | 4,155,753 |
| Prior Period Adjustment | | | | (9,777) | | (6,864) | (16,641) |
| Net Assets - End of Fiscal Year | | | | \$ 1,235,102 | \$ 2,994,539 | \$ 173,180 | \$ 4,402,821 |

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

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year Ended September 30, 2006

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Note 1 Summary of Significant Accounting Policies

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

Reporting Entity

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

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 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, 2006, 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 is 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:

**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 HFDC is governed by a board of directors, which is comprised of the City Council of the City 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 the City of San Antonio.

**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. 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.

**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 the City of San Antonio.

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, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. The City, uniform active employee and retiree contribution rates are established pursuant to the Fire and Police collective bargaining agreements.

**San Antonio Texas Starbright
Industrial Development
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 Starbright Industrial Development Corporation (TSIDC) 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 TSIDC is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.

**San Antonio Texas 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 City of San Antonio, Texas Convention Center Hotel Finance Corporation (TCCHFC) 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 TCCHFC is governed by a board of directors, which is comprised of the City Council of the City 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 Statement No. 14 and Statement No. 39, for inclusion in the reporting entity, and accordingly are included; however, are such that the financial statements are discretely presented alongside, but not blended with those of the City.

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 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 bonds are approved by the City Council.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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

On February 13, 1992, the City Council determined it was in the best interests of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water systems, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992, with the creation of the San Antonio Water System (SAWS) that included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system. It was further determined by the City Council 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 user rates for user charges and bond issuance authorizations are approved by the City Council.

**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 act 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 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.

**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 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 is governed by a seven-member board of commissioners appointed by the City Council.

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 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

**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. 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.

**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. 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.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Local Development
Company Inc. dba South Texas
Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact: 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 thirty-three member board of trustees, appointed by the City Council, and an eleven-member board of directors appointed by the board of trustees. 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, and a HUD 108 Fund. Currently, STBF has an outstanding note payable to HUD, which is guaranteed by the City.

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 SAWS, with a fiscal year-end of December 31, and CPS Energy with a fiscal year-end of January 31.

Related Organizations

The City Council appoints the members to the board of commissioners for the San Antonio Housing Authority; 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

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments*. In fiscal year 2003, the City implemented the portion of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, relating to the disaggregation of receivable and payable balances. These statements comply with the requirements of the new reporting model.

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, the City has early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

Note 1 Summary of Significant Accounting Policies (Continued)

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

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the Government-Wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of 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 between 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. 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 tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type 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 equity 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 individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are 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 individual 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 individual governmental or proprietary fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

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

- The General Fund is always presented as a major fund.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

- The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs, except those that are accounted for in proprietary type funds.
- The City of San Antonio Texas Convention Center Hotel Finance Corporation Fund accounts for the selling of debt to finance the Convention Center Hotel building project.
- The Categorical Grant-In-Aid fund accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants and HOME Investment Partnership Grants.

The following is a brief description of the major proprietary funds that are each 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.
- The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking 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, Community Services Fund, and Capital Project Funds), and the Debt Service Funds, Official City Store, Animal Care Service, and San Jose Burial Fund. Please note the Official City Store and Animal Care Service are reported in Community Services Fund.

Proprietary Funds

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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 include 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 tax to be remitted to the state, 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 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 period-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 also 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 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, either for operations of a particular program or to purchase a capital asset for a particular program.
- 3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Gross receipts and sales taxes are considered available when in the hands of 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 net assets, 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 enterprise 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.

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 include those expenses that result from the ongoing operations of the electric and gas systems. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback of J.K. Spruce Unit 1 and the sale of water rights in prior years are also included.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 2006 were recorded net of expenses of \$1,700 that were incurred to support the applicable activities.

SAWS' principal operating revenues are charges to customers for water and wastewater 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. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it is not directly identified with the water or wastewater services.

Current Year GASB Statement Implementations

In fiscal year 2006, the City implemented the following GASB Statements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for the service utility of an asset that has declined significantly and unexpectedly. For more information, please refer to Note 4, Capital Assets.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment of NCGA Statement 1. This statement addresses new standards to improve the understandability and usefulness of the information that state and local governments present in the statistical section.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement assists governments in determining when net assets have been restricted to a particular use by the passage of enabling legislation, and specifies how those net assets should be reported in the financial statements when there are changes in the circumstances surrounding such legislation. As of September 30, 2006, the City had no fund net assets restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*. This statement requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant assumptions and methods used to determine termination benefit liabilities. Statement 47 is effective for financial statements for periods beginning after June 15, 2005. The City offered an early retirement incentive to employees which took effect in May 2006. Calculations were based on the City's cost for an amount equivalent to 50% of the retiree's premium. As of September 30, 2006, the costs for these incentives have been analyzed and are considered immaterial for financial reporting purposes.

Future GASB Statement Implementations

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. The provisions of this statement are effective for fiscal periods beginning after December 15, 2005.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

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).

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.

The City has not fully determined the effect that implementation of Statements No. 43, No. 45, No. 47, and No. 48 will have on the City's financial statements.

Cash And Cash Equivalents And Investments

The City's investment practices are governed by state statutes and by the City's 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, 2006, the City's investment portfolio did not contain any derivative 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 ninety 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Materials and Supplies and Prepaid Items (Continued)

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. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and 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:

| <u>Assets</u> | <u>Useful Life (Years)</u> | <u>Capitalization Threshold</u> |
|------------------------------------|--------------------------------|-------------------------------------|
| Buildings | 15-40 | \$ 100 |
| Improvement (Other than buildings) | 20-40 | 100 |
| Machinery and Equipment | 2-20 | 5 |
| Furniture and Office Equipment | 5-10 | 5 |
| Infrastructure | 15-100 | 25 |

CPS Energy

The CPS Energy utility plant is stated at the cost of construction, including costs of contracted services, direct equipment, material and labor; indirect costs, including general engineering, labor, equipment, material overheads; and an Allowance for Funds Used During Construction (AFUDC). CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to require 30 days or more to complete.

CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property, using specifically identified service lives for each asset type. In 2003, a depreciation study was conducted to determine if existing depreciation rates remained applicable to the depreciable property groups. New rates were applied beginning in 2003. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was approximately 3.3% for 2006.

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 fuel expense monthly. For further discussion regarding the STP, see Note 10, CPS Energy South Texas Project (STP).

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets And Depreciation (Continued)

CPS Energy (Continued)

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 |

San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the unit cost equal to or greater than \$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.

SAWS' 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 Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

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.

The City is insured for property and casualty liability. As of the fiscal year 2006, 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 for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, the City has excess workers' compensation coverage through the State National Insurance Company, as of September 30, 2006. 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.

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Note 1 Summary of Significant Accounting Policies (Continued)

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. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, 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. "Available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities 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.

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 2006, general government expenditures were reduced by \$6,956, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of \$4,306 and \$2,650, respectively.

Nuclear Decommissioning

CPS Energy, together with the other owners of the 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 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 are now approximately \$397,400 in 2004 dollars.

Although there was an increase in decommissioning base costs from the 1998 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 \$6,900 in fiscal year 2005, which included the partial year affect of the updated study. Reflecting a full year's impact of the most recent study, CPS Energy's minimum annual contribution requirement was \$5,000 in fiscal year 2006.

In 1991, CPS Energy started accumulating the decommissioning funds for the 28.0% portion in an external trust, in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. At December 31, 2005, CPS Energy had accumulated approximately \$231,600, 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 \$76,700 at December 31, 2005.

Note 1 Summary of Significant Accounting Policies (Continued)**Nuclear Decommissioning (Continued)**

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 undoing of this trust will be received from or distributed to AEP's customers. As of December 31, 2005, that trust had accumulated approximately \$70,100 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that 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 \$32,900 at December 31, 2005.

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, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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 and debt issuance costs are reported 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity (Continued)

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.

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.

Other Budget Disclosures

Excess of expenditures, transfers, and encumbrances over appropriations occurred as shown in the table below:

| Excess of Expenditures, Transfers, and Encumbrances over Appropriations | | | |
|--|-----------------------|--|--|
| Fund/Expenditures | Appropriations | Expenditures, Transfers, and Encumbrances | Excess of Expenditures, Transfers, and Encumbrances over Appropriations |
| Special Revenue Funds: | | | |
| Hotel Motel Tax Capital Improvement | \$ 10,453 | \$ 12,377 | \$ 1,924 |
| Emergency Medical Services | 47,686 | 48,746 | 1,060 |
| Public Health Support Revenue | 2,626 | 2,789 | 163 |
| International Center | 921 | 1,029 | 108 |
| Animal Care Services | 4,937 | 5,125 | 188 |
| Permanent Funds: | | | |
| San Jose Burial Park | 452 | 475 | 23 |

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

Prior-Period Adjustments

SAWS' prior year net assets have been restated by \$(9,777). This restatement relates to capitalized interest calculations. SAWS analyzed their capitalized interest calculations for prior years and recorded this entry to reverse prior period capitalized interest.

Brooks Development Authority restated net assets due to record long-term liability to CPS Energy and SAWS in the amount of \$(6,739), to recognize lease revenue of \$102, to record grant revenue/expenses in the amount of \$(213), and to accrue interest receivable in the amount of \$94.

San Antonio Development Agency (SADA) restated beginning net assets in the amount of \$13 due to their inclusion of a component unit, San Antonio Affordable Housing, which should have been blended in prior years.

Note 1 Summary of Significant Accounting Policies (Continued)

Prior-Period Adjustments (Continued)

San Antonio Housing Trust Foundation, Inc. restated their beginning net assets in the amount of \$(121), which is comprised of \$(100) correcting a 2003 debt refinancing error and \$(21) which is the cumulative difference in prior tax basis losses versus accrual basis losses.

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 balance for budgeted carryforwards, special projects, reserve for revenue loss and fund balance reserved for Public, Educational and Government access channel operations.
- Special Revenue funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent funds designated fund balance consists of budgeted carryforwards 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. In fiscal year 1999, the City executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

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 year ended September 30, 2006, 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 amounts are not reflected in thousands). This could raise an additional \$958,212 per year based on the net taxable valuation of \$49,868,955 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 | Fire and Police Retiree Health Care Fund | CPS ² Energy | SAWS ³ |
| Unrestricted: | | | | | |
| Cash and Cash Equivalents | \$ 26,715 | \$ 170,049 | \$ 21,246 | \$ 96,548 | \$ 11,891 |
| Security Lending Collateral Investments | 311,345 | 1,704,387 | 145,596 | 145,993 | 115,716 |
| Total Unrestricted | 338,060 | 2,074,337 | 193,689 | 242,541 | 127,607 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 143,759 | | | 53,830 | 5,367 |
| Investments | 648,154 | | | 1,204,539 | 204,348 |
| Total Restricted | 791,913 | - | - | 1,258,369 | 209,715 |
| Total Cash and Cash Equivalents and Investments | \$ 1,129,973 | \$ 2,074,337 | \$ 193,689 | \$ 1,500,910 | \$ 337,322 |

¹ The following amounts were held by the City in a fiduciary capacity and are excluded from the primary Statement of Net Assets: cash and cash equivalents of \$7,309 and investments of \$1,277.

² For the fiscal year ended January 31, 2006.

³ For the fiscal year ended December 31, 2005.

| 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 Investments with Original Maturities of Less than Ninety Days | \$ 16,482 | \$ - | \$ - | \$ 10,731 | \$ 8,472 |
| Cash with Pension/Retiree Health Care Fiscal Agents | 153,102 | | 20,912 | 138,870 | 8,547 |
| Cash with Other Financial Agents | 12 | 170,049 | 334 | 639 | |
| Petty Cash Funds | 173 | | | 138 | |
| Cash on Hand | 705 | | | | 239 |
| Total Cash and Cash Equivalents | \$ 170,474 | \$ 170,049 | \$ 21,246 | \$ 150,378 | \$ 17,258 |

| 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 | \$ 968,946 | \$ 147,148 | \$ 26,237 | \$ 1,198,716 | \$ 328,611 |
| Repurchase Agreements | 143,655 | | | | |
| Corporate Bonds | | 140,558 | | 34,675 | |
| Foreign Bonds | | | | 9,125 | |
| Preferred Stock | | 1,155 | | | |
| Common Stock | | 969,752 | 67,974 | 237,150 | |
| Real Estate Investment Trusts (REIT) | | 151,360 | 13,780 | 8,436 | |
| Mutual Funds - Invest in Common Stock | | | 4,099 | | |
| Hedge Fund of Funds | | 176,436 | 44,622 | | |
| International Equities | | | | 1,300 | |
| Alternate Investment | | 117,978 | 9,796 | | |
| Total Investments | 1,112,601 | 1,704,387 | 166,508 | 1,489,402 | 328,611 |
| Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents | (153,102) | | (20,912) | (138,870) | (8,547) |
| Total | \$ 959,499 | \$ 1,704,387 | \$ 145,596 | \$ 1,350,532 | \$ 320,064 |

Note 3 Cash and Cash Equivalents and Investments (Continued)

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 share 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 inter-fund payables by the overdrawn fund and as interfund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 100.0% 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.

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, 2006.

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 decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was \$130 for the year ended September 30, 2006. 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.

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Note 3 Cash and Cash Equivalents and Investments (Continued)**Primary Government (City) (Continued)**

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 | \$ 438,619 | \$ 438,492 | 39.4% | AAA | 0.35 years |
| U.S. Treasuries | 434,646 | 434,643 | 39.1% | AAA | 0.24 years |
| Money Market Mutual Fund | 95,811 | 95,811 | 8.6% | AAA | N/A |
| Repurchase Agreement | 143,655 | 143,655 | 12.9% | N/A | N/A |
| Total City Investments | <u>\$ 1,112,731</u> | <u>\$ 1,112,601</u> | <u>100.0%</u> | | |

¹ The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Municipal Facilities Corporation, and Convention Center Hotel Finance Corporation, which total \$160,426.

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 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 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, in the City's name. The City does not address custodial credit risk in its investment policy.

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. 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. A weighted-average maturity in terms of years for the money market mutual funds and the repurchase agreements is not applicable.

Credit Risk - As of September 30, 2006, 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, and Federal Home Loan 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, 2006, the U.S. government agency securities allocation was as follows: Federal Home Loan Mortgage Corporation 21.0%, Federal National Mortgage Association 18.1%, and Federal Home Loan Bank 0.4%.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. 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 \$2,074,337. 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, 2006, cash in demand deposit accounts and the pooled cash of the City were fully collateralized.

Custodial Credit Risk (Investments) - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2006, the Pension Fund had investment in foreign currency in the amount of \$239 that were uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2006, 54.0% of the Pension Fund's bonds were rated AAA, 1.0% were rated AA, 6.0% were rated A, 1.0% were rated BBB, 16.0% were rated BB, 12.0% were rated B, 2.0% were rated CCC, 1.0% were rated below a D, 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, 2006 amount to \$278,351 and have a weighted-average maturity (WAM) of 7.96 years. Securities that are subject to interest rate risk are shown in the following table with exception of the Ashmore Emerging Markets Debt Fund (a commingled fund) which reports its interest rate risk in average duration for the portfolio. The average duration for the Ashmore Emerging Markets Debt Fund as of September 30, 2006 was 6.7 years, and the fair value of Pension Funds investment in this portfolio was \$13,753.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted-Avg. Maturity (Years)</u> |
|--|-------------------|---|
| Corporate Bonds | \$ 56,101 | 7.78 |
| Government Agencies | 3,908 | 5.59 |
| Government Bonds | 102,568 | 9.87 |
| Short-Term Bills and Notes | 4,399 | 0.12 |
| Government Mortgage-Backed Securities | 84,457 | 5.21 |
| Wellington Emerging Market Debt | <u>26,918</u> | 11.20 |
| Total Interest Rate Sensitive Securities | <u>\$ 278,351</u> | 7.96 |

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, 2006 amounted to \$365,913 in cash, \$83,706 in bonds and \$23,670 in common stock. Detailed as follows:

| Country | Cash | Bonds | Common Stock | Total |
|----------------------|-------------------|------------------|------------------|-------------------|
| Argentine Peso | \$ - | \$ 250 | \$ - | \$ 250 |
| Australian Dollar | 7,216 | 12,112 | (7,461) | 11,867 |
| Bulgarian New Lev | 33 | | | 33 |
| Bermuda Dollar | 56 | | | 56 |
| Brazilian Real | 11,237 | 3,866 | | 15,103 |
| Canadian Dollar | 342 | 5,184 | 4,259 | 9,785 |
| Swiss Franc | 32,453 | 54 | 118 | 32,625 |
| Chinese Renminbi | 4,564 | 3 | | 4,567 |
| Colombian Peso | | 296 | | 296 |
| Czech Republic Krona | 369 | | | 369 |
| Danish Krone | 1,099 | | | 1,099 |
| Egyptian Pound | 48 | 256 | | 304 |
| European Union | 90,763 | 13,797 | (12,654) | 91,906 |
| British Pound | 60,344 | 4,783 | 24 | 65,151 |
| Hong Kong Dollar | 13,139 | | 25 | 13,164 |
| Hungarian Forint | 753 | | | 753 |
| Indonesian Rupiah | 120 | 2,544 | | 2,664 |
| Israeli New Shekel | 27 | | | 27 |
| Indian Rupee | 1,661 | | | 1,661 |
| Japanese Yen | 54,608 | | 36,220 | 90,828 |
| South Korean Won | 25,882 | | | 25,882 |
| Kazakhstan Tenge | 38 | | | 38 |
| Lithuanian Litas | 16 | | | 16 |
| Mexican Peso | 1,524 | 5,787 | | 7,311 |
| Malaysian Ringgit | 3,477 | 2,309 | | 5,786 |
| Norwegian Krone | 1,959 | | 2 | 1,961 |
| New Zealand Dollar | 106 | 4,030 | | 4,136 |
| Nigerian Naira | | 285 | | 285 |
| Philippine Peso | 482 | 69 | | 551 |
| Polish Zloty | 7,799 | 8,571 | 233 | 16,603 |
| Romanian Leu | 660 | | | 660 |
| Russian Ruble | 8,339 | 359 | | 8,698 |
| Swedish Krona | 5,474 | 7,552 | | 13,026 |
| Singapore Dollar | 2,031 | 7,752 | 15 | 9,798 |
| Thai Baht | 1,646 | 34 | 2,889 | 4,569 |
| Turkey New Lira | 5,504 | 195 | | 5,699 |
| Taiwan Dollar | 18,870 | | | 18,870 |
| Ukrainian Hyvnia | 25 | | | 25 |
| Uraguay Peso | | 140 | | 140 |
| Venezuelan Bolivar | 325 | | | 325 |
| South African | 2,924 | 3,478 | | 6,402 |
| | <u>\$ 365,913</u> | <u>\$ 83,706</u> | <u>\$ 23,670</u> | <u>\$ 473,289</u> |

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 30 days at September 30, 2006.

As of September 30, 2006, the Pension Fund had lending arrangements outstanding with a total market value of \$194,200, which were fully collateralized with cash and securities. Of this amount, cash collateral of \$199,901 is recorded in the accompanying Statement of Plan Fiduciary Net Assets. Net income for the year ended September 30, 2006 under the securities lending arrangement was \$358.

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, 2006 was approximately \$62,769.

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 assets 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.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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, 2006 is \$193,689. A summary of the Health Care Funds 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, 2006, is \$596. The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2006. 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, 2006:

| | |
|--------------------------|-----------|
| Common Stock | \$ 67,974 |
| Mutual Fund | 4,099 |
| Money Market Mutual Fund | 20,912 |

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 \$20,912 at year-end and is payable on demand.

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Note 3 Cash and Cash Equivalents and Investments (Continued)**Fire and Police Retiree Health Care Fund (Continued)**

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 June 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, 2006.

CPS Energy

CPS Energy's cash deposits at January 31, 2006 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, government agency, or U.S. government-guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS Energy's name. A summary of CPS Energy's cash, cash equivalents, and investment can be found at the beginning of this 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 at the end of the applicable fiscal years, as well as the results of the Decommissioning Trusts and the Employee Benefit Plans. For fiscal year 2006, consolidation practices were modified, whereby the results of the Decommissioning Trusts and the Employee Benefit Plans were included as of their separately audited calendar year-ends.

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 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 investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS Energy's investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific-identification method is used to determine costs in computing gain or loss on sales of securities. CPS Energy reports all investments of the Decommissioning Trusts and the Employee Benefit Plans at fair value.

Prior to the end of fiscal year 2005, CPS Energy wrote policies for its direct investments and for the 28.0% Decommissioning Trust. Conversely, an administrative committee, using applicable guidelines that management considered effective, provided oversight of the investments of the Employee Benefit Plans.

On January 31, 2005, the policies for the direct investments and the 28.0% Decommissioning Trust were amended to include specific language requirements associated with GASB Statement No. 40. Simultaneously, the guidelines of the Employee Benefit Plans were formalized in writing to include the language requirements of GASB Statement No. 40. CPS Energy fully adopted this statement in fiscal year 2005. The adoption of this guidance did not affect CPS Energy's financial position or results of operation. However, it did result in additional reporting disclosures that have been incorporated into this note.

Note 3 Cash and Cash Equivalents and Investments (Continued)**CPS Energy (Continued)**

Since the above amendments and adoption coincided with CPS Energy's 2005 fiscal year-end, its direct investments were evaluated against the applicable amended Investment Policy. Comparatively, the GASB Statement No. 40 adoption followed the calendar year-ends of CPS Energy's component units. As a result, the 28.0% Decommissioning Trust's policy provision existing at end of the 2004 calendar year was used for applicable required disclosures. This approach was not used for the Employee Benefit Plans in fiscal year 2005. Alternatively, their investments were presented without comparison to policies, because the guidelines were not formally written and approved as of the prior calendar year-end. Even so, other applicable risk disclosures were made for the investments held by the Employee Benefits Plans.

As noted above, effective September 1, 2005, the investment policy of the Decommissioning Trusts were revised to allow for investment in additional types of 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. These investment policies continue to follow the "prudent person" concept.

In November 2005, the Oversight Committee 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.

The following tables and disclosures summarize CPS Energy's total investments by direct investments, Decommissioning Trusts, and Employee Benefit Plans as well as address investment exposure to interest rate risk, credit risk, concentration of credit risk and foreign currency risk, as applicable in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The disclosure requirements of the 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.

CPS Energy's Direct Investments - 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 laws. These investments include U.S. government or government agency or U.S. government guaranteed obligations, collateralized mortgage obligations issued by the U.S. government, fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the state of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. The following narrative and preceding tables describe the interest rate risk exposure by investment type, using the weighted-average maturity (WAM) method, credit risk, and concentration of credit risk of CPS Energy's Direct Investments.

| 2006 CPS Energy's Direct Investments | | | | | |
|--|---------------------|---------------------|---------------|--------|-----------|
| | Carrying Amount | Fair Value | Allocation | Rating | WAM |
| U.S. Government Agency | \$ 921,733 | \$ 921,548 | 91.5% | AAA | 1.3 years |
| AIM Money Market | 85,869 | 85,869 | 8.5% | AAA | N/A |
| Total CPS Energy Direct Investments | <u>\$ 1,007,602</u> | <u>\$ 1,007,417</u> | <u>100.0%</u> | | 1.3 years |

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - In accordance with its Investment Policies, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolios weighted average maturity to two years. 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. CPS Energy invests in money market mutual funds that have no fixed maturities. Accordingly, a weighted average maturity in terms of years for money market funds is not applicable.

Credit Risk - In accordance with its Investment Policies, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a rating of A or better. As of January 31, 2006, CPS Energy held no direct investments with a rating below.

Concentration of Credit Risk - In accordance with its Investment Policies, CPS Energy manages exposure to credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any other nongovernment issuer to 5.0% of the total fixed income portfolio. Investments in U.S. government agencies were allocated as follows: Federal Farm Credit Banks (FFCB) 1.5%; Federal Home Loan Bank (FHLB) 43.4%; Federal Home Loan Mortgage Corporation (FHLMC) 22.9%; Federal National Mortgage Association (FNMA) 23.7%; and AIM Money Market of 8.5%.

Foreign Currency Risk - Since CPS Energy does not hold foreign instruments in its Direct Investments, foreign currency risk is not applicable.

Decommissioning Trusts - CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Trust investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project, Decommissioning Trusts, Investment Policy, the Investment Strategy Committee, the Trust Agreements, and state laws. 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 investment held can comprise 60.0% of total investments. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following table and narrative address interest rate risk exposure by investment type, using the weighted-average maturity (WAM) 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.

| Decommissioning Trusts | | | | | |
|--|-------------------|-------------|------------------|-------------|--------------------|
| Weighted-Average Maturity (WAM) of Investments | | | | | |
| | 28.0% Interest | | 12.0% Interest | | Total Market Value |
| | Market Value | WAM (Years) | Market Value | WAM (Years) | |
| U.S Treasury and Agencies: | | | | | |
| Notes and Bonds | \$ 64,041 | 3.4 | \$ 7,389 | 2.7 | \$ 71,430 |
| Mortgage Pass-Through Securities | 29,227 | 4.3 | 7,814 | 5.3 | 37,041 |
| Asset-Backed Securities | 6,125 | 4.7 | 1,348 | 4.2 | 7,473 |
| Corporate Bonds | 12,975 | 8.4 | 5,289 | 4.8 | 18,264 |
| Municipal Bonds--Other States | | | 4,614 | 5.5 | 4,614 |
| Municipal Bonds--Texas | | | 684 | 12.4 | 684 |
| Foreign Bond Fund | 843 | 33.2 | | | 843 |
| Money Market Mutual Funds | 22,475 | N/A | 1,263 | N/A | 23,738 |
| Total Fixed Income Investments | <u>\$ 135,686</u> | <u>4.5</u> | <u>\$ 28,401</u> | <u>4.7</u> | <u>\$ 164,087</u> |

| Investments Allocated by Credit Rating | | | | | |
|--|-------------------|---------------|------------------|---------------|--------------------|
| Credit Rating | 28.0% Interest | | 12.0% Interest | | Total Market Value |
| | Market Value | Allocation | Market Value | Allocation | |
| U.S. Government Treasury | \$ 60,584 | 44.7% | \$ 5,902 | 20.8% | \$ 66,486 |
| AAA (including A-1/P-1 CP) | 59,931 | 44.2% | 18,744 | 66.0% | 78,675 |
| AA | 525 | 0.4% | 822 | 2.9% | 1,347 |
| A | 4,595 | 3.4% | 2,933 | 10.3% | 7,528 |
| BBB | 9,429 | 6.9% | | | 9,429 |
| Unrated Foreign Bonds | 622 | 0.4% | | | 622 |
| Total | <u>\$ 135,686</u> | <u>100.0%</u> | <u>\$ 28,401</u> | <u>100.0%</u> | <u>\$ 164,087</u> |

| Concentration of Credit Risk | | | | | |
|------------------------------|-------------------|--------------------------------------|------------------|--------------------------------------|--------------------|
| Top Issuers | 28.0% Interest | | 12.0% Interest | | Total Market Value |
| | Market | Percentage of Fixed Income Portfolio | Market | Percentage of Fixed Income Portfolio | |
| U.S. Treasury | \$ 60,584 | 44.7% | \$ 5,902 | 20.8% | \$ 66,486 |
| Money Market Mutual Funds | 22,475 | 16.6% | | 0.0% | 22,475 |
| Federal National Mortgage | 24,334 | 17.9% | 5,497 | 19.4% | 29,831 |
| Federal Home Loan Mortgage | 10,148 | 7.5% | 3,805 | 13.4% | 13,953 |
| Total | <u>\$ 117,541</u> | <u>86.7%</u> | <u>\$ 15,204</u> | <u>53.6%</u> | <u>\$ 132,745</u> |

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity 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 by having duration limits. 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.

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. Prior to implementation of the new Investment Policy in fiscal year 2005, the WAM method was used as measurement of interest rate risk.

Credit Risk - The Decommissioning Trusts manages their exposure to credit risk by limiting all of their fixed income investments to a rating of BBB or better from at least two nationally recognized credit rating agencies.

Concentration of Credit Risk - The Decommissioning Trusts manage exposure to concentration of credit risk through diversification and by limiting their investment in each government-sponsored entity to 30.0% and their investment in any other nongovernment-sponsored issuer to 5.0% of the total fixed income portfolio.

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; therefore, there is minimal foreign currency risk. Total foreign bonds outstanding as of January 31, 2006 were \$843.

CPS Energy Employee Benefit Plans - Investments in the Employee Benefit Plans are also held by an independent trustee. These investments are limited to those authorized by the plans' administrative committees, the Trust Agreements, and state laws. 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. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent person" concept. CPS Energy reports Employee Benefit Plans investments at fair value. CPS Energy employee Benefit Plans consist of three separate plans. The plans include the CPS Energy of San Antonio Group Health Plan (the Health Plan), the Disability Income Plan (the Disability Plan), and the Life Insurance Plan (the Life Plan).

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following narrative and tables describe the interest rate risk exposure by investment type using the weighted-average maturity (WAM) method, credit risk, and concentration of credit risk of CPS Energy's Employee Benefit Plans.

| Weighted Average Maturity (WAM) of Investments | | | | | | | |
|--|------------------|-------------|-----------------|------------|------------------|-------------|--------------------|
| | Health Plan | | Disability Plan | | Life Plan | | Total Market Value |
| | Market Value | WAM (Years) | Market Value | WAM | Market Value | WAM (Years) | |
| U.S. Treasuries and Agencies: | | | | | | | |
| Notes and Bonds | \$ 8,776 | 6.4 | \$ 474 | 6.0 | \$ 3,840 | 6.7 | \$ 13,090 |
| Collateralized Mortgage Obligations | 5,842 | 7.7 | 267 | 4.3 | 3,522 | 7.1 | 9,631 |
| Commercial Mortgage-Backed Securities | 3,118 | 3.2 | 108 | 3.8 | 1,550 | 2.7 | 4,776 |
| Mortgage Pass-through Securities | 1,303 | 5.2 | 51 | 4.0 | 218 | 5.3 | 1,572 |
| Asset-Backed Securities | 1,505 | 1.5 | 80 | 1.5 | 835 | 1.1 | 2,420 |
| Corporate Bonds | 4,734 | 5.3 | 280 | 3.7 | 2,644 | 5.3 | 7,658 |
| High-Yield Corporate Bonds | 6,051 | 4.4 | | | | | 6,051 |
| Foreign Bond Fund | 6,047 | 4.5 | | | 2,235 | 4.5 | 8,282 |
| Cash and Money Market Mutual Funds | 14,845 | n/a | 269 | N/A | 2,233 | N/A | 17,347 |
| Total Employee Benefit Plans | <u>\$ 52,221</u> | <u>3.8</u> | <u>\$ 1,529</u> | <u>3.8</u> | <u>\$ 17,077</u> | <u>4.7</u> | <u>\$ 70,827</u> |

| Investments Allocated by Credit Rating | | | | | | | |
|--|------------------|---------------|-----------------|---------------|------------------|---------------|--------------------|
| Credit Rating | Health Plan | | Disability Plan | | Life Plan | | Total Market Value |
| | Market Value | Allocation | Market Value | Allocation | Market Value | Allocation | |
| U.S. Government | \$ 4,196 | 8.0% | \$ 320 | 20.9% | \$ 1,479 | 8.7% | \$ 5,995 |
| AAA (including A-1/P-1 CP) | 31,180 | 59.7% | 929 | 60.8% | 11,009 | 64.4% | 43,118 |
| AA | 892 | 1.7% | 81 | 5.3% | 579 | 3.4% | 1,552 |
| A | 3,526 | 6.8% | 82 | 5.3% | 1,658 | 9.7% | 5,266 |
| BBB | 373 | 0.7% | 67 | 4.4% | 17 | 0.1% | 457 |
| Less than BBB | 6,007 | 11.5% | 50 | 3.3% | 100 | 0.6% | 6,157 |
| Subtotal | 46,174 | 88.4% | 1,529 | 100.0% | 14,842 | 86.9% | 62,545 |
| Navarro Investments, L.L.C.: | | | | | | | |
| AAA (including A-1/P-1 CP) | 5,482 | 10.5% | | | 2,026 | 11.9% | 7,508 |
| AA | 565 | 1.1% | | | 209 | 1.2% | 774 |
| Total Navarro Investments, L.L.C. | 6,047 | 11.6% | | | 2,235 | 13.1% | 8,282 |
| Total Employee Benefit Plans | <u>\$ 52,221</u> | <u>100.0%</u> | <u>\$ 1,529</u> | <u>100.0%</u> | <u>\$ 17,077</u> | <u>100.0%</u> | <u>\$ 70,827</u> |

| Concentration of Credit Risk | | | | | | | |
|--|------------------|--------------------------------------|-----------------|--------------------------------------|------------------|--------------------------------------|--------------------|
| | Health Plan | | Disability Plan | | Life Plan | | Total Market Value |
| | Market Value | Percentage of Fixed-Income Portfolio | Market Value | Percentage of Fixed Income Portfolio | Market Value | Percentage of Fixed Income Portfolio | |
| Top Issuers | | | | | | | |
| Money Market Mutual Funds | \$ 14,845 | 28.4% | \$ 269 | 17.6% | \$ 2,234 | 13.1% | \$ 17,348 |
| Federal National Mortgage Association | 6,332 | 12.1% | 157 | 10.3% | 2,909 | 17.0% | 9,398 |
| Foreign Bond Fund- | | | | | | | |
| Navarro Investments, L.L.C. | 6,047 | 11.6% | | | 2,235 | 13.1% | 8,282 |
| Federal Home Loan Mortgage Corporation | 5,922 | 11.3% | 320 | 20.9% | 3,052 | 17.9% | 9,294 |
| | <u>\$ 33,146</u> | <u>63.4%</u> | <u>\$ 746</u> | <u>48.8%</u> | <u>\$ 10,430</u> | <u>61.1%</u> | <u>\$ 44,322</u> |

Note 3 Cash and Cash Equivalents and Investments (Continued)**CPS Energy (Continued)**

Interest Rate Risk - In accordance with its historical guidelines and 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.

Credit Risk - In accordance with its historical guidelines and investment policy, the administrative committee manages exposure to credit risk by limiting high grade, domestic debt managers to not more than 7.5% of their total portfolio in below BBB rated investments. At December 31, 2005, investments rated below BBB represented 0.4% of the high grade portfolio. 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 at December 31, 2005 equated to 19.2% of total fixed income investments.

As noted above, even though at the end of calendar year 2005 the Health Plan held approximately 11.6% of its fixed income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The weighted average rating for those securities was calculated to be "AAA".

Concentration of Credit Risk - In accordance with historical guidelines and 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, the administrative committee manages exposure to credit risk 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. There is no limit to what may be invested in government-guaranteed or government agency debt issues other than the government agency debt may not exceed 50.0% by any one issuer. There were no corporate bonds exceeding these limits at December 31, 2005.

Foreign Currency Risk - The Health Plan and the Life Plan have \$6,047 and \$2,235, respectively, invested in the Navarro Investments L.L.C Foreign Bond Fund at December 31, 2005. 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 Funds.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

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 One N.A., SAWS' general depository bank. The general depository agreement does not require that SAWS maintain an average monthly balance. As required by state laws, all deposits are fully collateralized and/or are covered by federal depository insurance. The collateral pledged is being held by the Federal Reserve Bank of New York under SAWS' name on December 31, 2005; as such, SAWS incurs no custodial risk. As of December 31, 2005, the bank balance of demand and savings account was \$12,871, and the reported amount was \$8,711, which includes \$239 of cash on hand.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are in securities of the U.S. Treasury or agencies of the United States, and are held in safekeeping by the general depository bank, JP Morgan Chase/ Bank One N.A., registered as accounts of SAWS. Funds held in escrow are money market funds managed by Wachovia Bank and JP Morgan Chase/Bank One 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. As of December 31, 2005, SAWS had the following investments and maturities:

| Investment Type | Investments Maturities (in Days) | | | | Fair Value | Reported |
|----------------------------|----------------------------------|-------------------|-----------------|------------------|-------------------|-------------------|
| | Less than 90 | 91 to 180 | 181 to 365 | Greater Than 365 | | |
| U.S. Treasury Bills | \$ 37,817 | \$ 33,310 | \$ - | \$ - | \$ 71,127 | \$ 71,158 |
| U.S. Treasury Notes | 19,879 | 8,955 | | | 28,834 | 28,847 |
| U.S. Agency Discount Notes | 101,000 | 65,943 | | | 166,943 | 167,079 |
| U.S. Agency Coupon Notes | 24,049 | 10,786 | 9,858 | 5,734 | 50,427 | 50,453 |
| Money Market Funds: | | | | | | |
| Wachovia Bank | 8,080 | | | | 8,080 | 8,080 |
| JP Morgan Chase/Bank One | 2,994 | | | | 2,994 | 2,994 |
| | <u>\$ 193,819</u> | <u>\$ 118,994</u> | <u>\$ 9,858</u> | <u>\$ 5,734</u> | <u>\$ 328,405</u> | <u>\$ 328,611</u> |
| Percentage of Portfolio | 59% | 36% | 3% | 2% | 100% | |

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 98.0% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - SAWS' investment in government-sponsored entities such as Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's and Fitch's Ratings. The investments in money market funds were rated Aaa by Moody's Investor Service and AAA by Standard and Poor's.

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount 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, 2005, SAWS has invested more than 5.0% of its investments in government-sponsored entities, in the form of discount or coupon notes. The percentage invested in each issuer as a percent of the total portfolio is as follows: 11.2% in Federal Home Loan Bank Notes, 27.5% in Federal National Mortgage Association Notes, and 27.2% in Federal Home Loan Mortgage Corporation Notes.

Stock Investment - The demutualization of Metropolitan Life Insurance (MetLife) on April 7, 2000 made SAWS a policyholder, eligible to receive compensation for the membership interest for the dental plan provided as a benefit for employees. The demutualization compensation consisted of a distribution of 7,567 shares of MetLife, Inc. common stock. On the date of issue, the stock was priced at \$14.25 per share for a total value to SAWS of \$108.

On October 26, 2001, with the demutualization of Principal Financial Group, Inc., SAWS received compensation for the membership interest for the life insurance provided as a benefit for employees and retirees. The demutualization compensation consisted of a distribution of 134,652 shares of Principal Financial Group, Inc. common stock. On the date of issuance, the stock was priced at \$23.35 per share, for a total value to SAWS of \$3,144. Upon the identification of these securities, these two stock transactions were recorded on the SAWS' financial records as of December 31, 2004. Given the appreciation in these securities subsequent to the demutualization, in accordance with GASB Statement No. 31, an unrealized gain was recorded in the amount of \$2,369 for Principal Financial Group, Inc. and \$198 for Metlife, Inc. In 2005, SAWS sold its stock for \$5,609 and realized a gain on the sale of \$2,357.

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. The adoption of this standard resulted in a reduction in capital assets in the amount of \$4,029 for governmental activities. There was no financial statement impact for the City's business-type activities.

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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, 2006, is as follows:

| Capital Assets - Governmental Activities | | | | | |
|---|------------------------------|------------------|--------------------|------------------|---------------------------|
| Governmental Activities: | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
| Non-Depreciable Assets: | | | | | |
| Land | \$ 1,268,142 | \$ 19,235 | \$ - | \$ 2,143 | \$ 1,289,520 |
| Construction in Progress | 614,763 | 103,534 | (21,291) | (444,857) | 252,149 |
| Total Non-Depreciable Assets | <u>1,882,905</u> | <u>122,769</u> | <u>(21,291)</u> | <u>(442,714)</u> | <u>1,541,669</u> |
| Depreciable Assets: | | | | | |
| Buildings | 396,837 | | (1,546) | 238,791 | 634,082 |
| Improvements | 107,033 | 48 | | 38,982 | 146,063 |
| Infrastructure | 2,054,838 | | | 96,275 | 2,151,113 |
| Machinery and Equipment | 216,061 | 34,271 | (11,584) | 68,666 | 307,414 |
| Total Depreciable Assets | <u>2,774,769</u> | <u>34,319</u> | <u>(13,130)</u> | <u>442,714</u> | <u>3,238,672</u> |
| Accumulated Depreciation: | | | | | |
| Buildings | (168,553) | (37,284) | 153 | | (205,684) |
| Improvements | (41,454) | (5,682) | | | (47,136) |
| Infrastructure | (1,258,636) | (58,186) | | | (1,316,822) |
| Machinery and Equipment | (120,472) | (28,151) | 8,102 | | (140,521) |
| Total Accumulated Depreciation | <u>(1,589,115)</u> | <u>(129,303)</u> | <u>8,255</u> | | <u>(1,710,163)</u> |
| Total Depreciable Assets, net | <u>1,185,654</u> | <u>(94,984)</u> | <u>(4,875)</u> | <u>442,714</u> | <u>1,528,509</u> |
| Total Capital Assets, net | <u>\$ 3,068,559</u> | <u>\$ 27,785</u> | <u>\$ (26,166)</u> | <u>\$ -</u> | <u>\$ 3,070,178</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------|-----------|
| General Government | \$ 13,443 |
| Public Safety | 4,804 |
| Public Works | 61,072 |
| Health Services | 308 |
| Welfare | 1,111 |
| Culture and Recreation | 5,307 |
| Convention and Tourism | 30,202 |
| Economic Development | 14 |

Depreciation on Capital Assets Held by the City's Internal Service

| | |
|---|-------------------|
| Funds are Charged to Various Functions Based on Asset Usage | 13,042 |
| Total Depreciation Expense for Governmental Activities | <u>\$ 129,303</u> |

¹ The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2006, Internal Service Funds capital assets increased by \$19,944, and decreased by \$9,934, resulting in an ending balance of \$130,249. Depreciation expense of \$13,042 resulted in an ending accumulated depreciation balance of \$79,688, to arrive at net book value of \$50,561.

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 2006, the City capitalized construction period interest for the Aviation Fund in the amount of \$392. Capital asset activity for business-type activities for the year ended September 30, 2006, is as follows:

| Capital Assets - Business-Type Activities | | | | |
|---|-------------------|------------------|--------------------|-------------------|
| | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| Non Depreciable Assets: | | | | |
| Land: | | | | |
| Aviation Fund | \$ 2,970 | \$ - | \$ - | \$ 2,970 |
| Parking Fund | 8,125 | | | 8,125 |
| Nonmajor Fund | 893 | | | 893 |
| Total | 11,988 | | | 11,988 |
| Construction in Progress: | | | | |
| Aviation Fund | 98,382 | 23,429 | (17,825) | 103,986 |
| Parking Fund | 3,329 | | (1,995) | 1,334 |
| Nonmajor Fund | 598 | | (598) | |
| Total | 102,309 | 23,429 | (20,418) | 105,320 |
| Total Non Depreciable Assets | 114,297 | 23,429 | (20,418) | 117,308 |
| Depreciable Assets: | | | | |
| Buildings: | | | | |
| Aviation Fund | 144,248 | | | 144,248 |
| Parking Fund | 29,192 | 1,194 | (250) | 30,136 |
| Nonmajor Fund | 46 | | | 46 |
| Total | 173,486 | 1,194 | (250) | 174,430 |
| Improvements: | | | | |
| Aviation Fund | 156,110 | 14,750 | | 170,860 |
| Parking Fund | 1,283 | 812 | | 2,095 |
| Nonmajor Fund | 3,025 | 597 | | 3,622 |
| Total | 160,418 | 16,159 | | 176,577 |
| Machinery and Equipment: | | | | |
| Aviation Fund | 10,866 | 906 | (413) | 11,359 |
| Parking Fund | 579 | | | 579 |
| Nonmajor Fund | 3,840 | 99 | (71) | 3,868 |
| Total | 15,285 | 1,005 | (484) | 15,806 |
| Total Depreciable Assets | 349,189 | 18,358 | (734) | 366,813 |
| Accumulated Depreciation: | | | | |
| Buildings: | | | | |
| Aviation Fund | (58,060) | (3,428) | | (61,488) |
| Parking Fund | (9,148) | (734) | | (9,882) |
| Nonmajor Fund | (229) | (1) | | (230) |
| Total | (67,437) | (4,163) | | (71,600) |
| Improvements: | | | | |
| Aviation Fund | (75,439) | (3,340) | | (78,779) |
| Parking Fund | (519) | (121) | | (640) |
| Nonmajor Fund | (421) | (153) | | (574) |
| Total | (76,379) | (3,614) | | (79,993) |
| Machinery and Equipment: | | | | |
| Aviation Fund | (8,557) | (866) | 340 | (9,083) |
| Parking Fund | (569) | (3) | | (572) |
| Nonmajor Fund | (2,804) | (270) | 71 | (3,003) |
| Total | (11,930) | (1,139) | 411 | (12,658) |
| Total Accumulated Depreciation | (155,746) | (8,916) | 411 | (164,251) |
| Total Depreciable Assets, Net | 193,443 | 9,442 | (323) | 202,562 |
| Total Capital Assets, Net | \$ 307,740 | \$ 32,871 | \$ (20,741) | \$ 319,870 |

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—3 of which are coal-fired and 16 of which are gas-fired. The list of plants and relative generating units are J.T. Deely with 2 units, J.K. Spruce with 1 units, Arthur von Rosenberg with 1 unit, O.W. Sommers with 2 units, V.H. Braunig with 3 units, W.B. Tuttle with 4 units, of which two units are fully depreciated and are currently not available for use, and Leon Creek with 6 units, of which 4 units fully depreciated and not currently available for use.

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 (EMC), the main office complex, the customer service centers, the construction and service centers, the Villita Assembly Building, and a fleet of automobiles, trucks, and work equipment.

Impairments - 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 2006.

CPS Energy capitalizes interest incurred on construction projects in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. CPS Energy capitalized construction period interest in the amount of \$4,669. Capital asset activity for CPS Energy is as follows:

| Capital Assets - CPS Energy | | | | |
|--------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| Nondepreciable Assets: | | | | |
| Land | \$ 56,482 | \$ 2,169 | \$ - | \$ 58,651 |
| Nonutility property-land | 12,599 | | | 12,599 |
| Construction in Progress | 180,594 | 335,977 | (219,625) | 296,946 |
| Total Nondepreciable Assets | <u>249,675</u> | <u>338,146</u> | <u>(219,625)</u> | <u>368,196</u> |
| Depreciable Capital Assets: | | | | |
| Utility Plant in Service | 7,005,400 | 396,847 | (29,079) | 7,373,168 |
| Utility Property Leased | 18,785 | | | 18,785 |
| Nuclear Fuel | 319,186 | 165,869 | | 485,055 |
| Total Depreciable Assets | <u>7,343,371</u> | <u>562,716</u> | <u>(29,079)</u> | <u>7,877,008</u> |
| Accumulated Depreciation: | | | | |
| Utility Plant in Service | (2,662,919) | (246,410) | 32,682 | (2,876,647) |
| Utility Property Leased | (336) | | | (336) |
| Nuclear Fuel | (283,797) | (141,788) | | (425,585) |
| Total Accumulated Depreciation | <u>(2,947,052)</u> | <u>(388,198)</u> | <u>32,682</u> | <u>(3,302,568)</u> |
| Total Depreciable Assets, Net | <u>4,396,319</u> | <u>174,518</u> | <u>3,603</u> | <u>4,574,440</u> |
| Total Capital Assets, Net | <u>\$ 4,645,994</u> | <u>\$ 512,664</u> | <u>\$ (216,022)</u> | <u>\$ 4,942,636</u> |

Cash flow information-cash paid for additions, net removal costs and nuclear fuel was \$559,938, and noncash AFUDC was \$4,669, for a total of \$564,607. Included in Decreases was \$6,715 in removal cost, offset by \$3,112 in salvage sales. Depreciation, depletion and amortization totaled \$267,965. The \$120,233 under fuel and its amortization as acquired through the additional 12.0% purchase of STP. The increases in Utility Plant & Service also included the 12.0% STP acquisition, as well as new substations and distribution infrastructure. The STP acquisition is included in the Utility plant in service additions/increases column. Included in utility plant in service plant was the Mission Road generation plant (MRP) that had an acquisition value of \$12,500. MRP was taken out of service on October 1, 2003 after being fully depreciated.

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP is a two-unit nuclear power plant located in Matagorda County, Texas. STP 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, Texas Genco, 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, 2006, CPS Energy’s capital investment in STP is as follows:

| STP Capital Investment, Net | |
|--------------------------------------|---------------------|
| STP Costs: | |
| Construction in Progress | \$ 21,261 |
| Land | 5,701 |
| Electric and General Plant | 2,371,419 |
| Nuclear Fuel | 485,055 |
| Total STP Costs | <u>2,883,436</u> |
| Accumulated Depreciation: | |
| Electric and General Plant | (954,403) |
| Nuclear Fuel | (425,585) |
| Total Accumulated Depreciation | <u>(1,379,988)</u> |
| STP Capital assets, net: | |
| Construction in Progress | 21,261 |
| Land | 5,701 |
| Electric and General Plant | 1,417,016 |
| Nuclear Fuel | 59,470 |
| Total STP Capital Assets, Net | <u>\$ 1,503,448</u> |
| Total CPS Energy Capital Assets, Net | <u>\$ 4,942,636</u> |
| STP Capital Investment as a | |
| Percent of Total CPS Energy | |
| Capital Assets, Net | 30.4% |

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Note 4 Capital Assets (Continued)**San Antonio Water System (SAWS)**

SAWS capitalized interest incurred on revenue bonds and commercial paper debt totaled \$61,479 during the twelve months ended December 31, 2005, of which \$16,300 was capitalized as part of the cost of SAWS' utility plant additions. In accordance with Statement of Accounting Standard No. 62, issued by the FASB, SAWS capitalized construction period interest in the amount of \$16,300. Capital asset activity for SAWS is as follows:

| Capital Assets - San Antonio Water System | | | | |
|--|---------------------|-------------------|---------------------|---------------------|
| | (Restated) | | | |
| San Antonio Water System: | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| Nondepreciable Assets: | | | | |
| Land | \$ 63,537 | \$ 9,968 | \$ (683) | \$ 72,822 |
| Acquisition of Water Rights | 18,802 | 17,245 | | 36,047 |
| Construction in Progress | 499,585 | 219,821 | (236,205) | 483,201 |
| Total Nondepreciable Assets | <u>581,924</u> | <u>247,034</u> | <u>(236,888)</u> | <u>592,070</u> |
| Depreciable Assets: | | | | |
| Utility Plant in Service | 2,293,502 | 212,441 | (8,334) | 2,497,609 |
| Machinery and Equipment | 103,052 | 8,536 | (1,824) | 109,764 |
| Total Depreciable Assets | <u>2,396,554</u> | <u>220,977</u> | <u>(10,158)</u> | <u>2,607,373</u> |
| Accumulated Depreciation: | | | | |
| Utility Plant in Service | (735,555) | (59,465) | 3,571 | (791,449) |
| Machinery and Equipment | (62,902) | (8,492) | 1,680 | (69,714) |
| Total Accumulated Depreciation | <u>(798,457)</u> | <u>(67,957)</u> | <u>5,251</u> | <u>(861,163)</u> |
| Total Depreciable Assets, Net | <u>1,598,097</u> | <u>153,020</u> | <u>(4,907)</u> | <u>1,746,210</u> |
| Total Capital Assets, Net | <u>\$ 2,180,021</u> | <u>\$ 400,054</u> | <u>\$ (241,795)</u> | <u>\$ 2,338,280</u> |

Beginning balances have been restated per SAWS' December 31, 2005 CAFR.

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Note 5 Receivables and Payables

Disaggregation of Receivables

Net receivables at September 30, 2006 is as follows:

| | Accounts | Taxes | Notes and Loans | Accrued Interest | Other | Total Net Receivables |
|--------------------------------------|------------------|------------------|--------------------|---------------------|---------------|--------------------------|
| <u>Governmental Activities:</u> | | | | | | |
| General Government | \$ 35,769 | \$ 55,792 | \$ - | \$ 5,773 | \$ 625 | \$ 97,959 |
| Public Safety | 2,326 | | | 84 | | 2,410 |
| Public Works | 4,096 | | | 901 | | 4,997 |
| Health Services | 8,060 | | | 6 | | 8,066 |
| Environmental Protection and Control | 96 | | | | | 96 |
| Culture and Recreation | 4,078 | | | 555 | | 4,633 |
| Convention and Tourism | 6,549 | | | 470 | | 7,019 |
| Urban Redevelopment and Housing | 11,933 | | 2,156 | 41 | | 14,130 |
| Welfare | 10,618 | | 3,162 | 26 | | 13,806 |
| Economic Development Opportunity | 724 | | | 68 | | 792 |
| Total Governmental Activities | <u>\$ 84,249</u> | <u>\$ 55,792</u> | <u>\$ 5,318</u> | <u>\$ 7,924</u> | <u>\$ 625</u> | <u>\$ 153,908</u> |
| <u>Business-Type Activities:</u> | | | | | | |
| Airport System | \$ 3,456 | \$ - | \$ - | \$ 2,209 | \$ - | \$ 5,665 |
| Parking Facilities | 30 | | | 162 | | 192 |
| Nonmajor Fund | 5,000 | | | 45 | | 5,045 |
| Total Business-Type Activities | <u>\$ 8,486</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,416</u> | <u>\$ -</u> | <u>\$ 10,902</u> |

The receivable balances for General Government, Public Health Services, Culture and Recreation, and Convention and Tourism have been reduced by the estimated allowance for doubtful accounts of \$18,176, \$26,493, \$29, \$79, respectively, and General Government taxes of \$5,979. The receivable balance for business-type activities has been reduced by the estimated allowance for doubtful accounts of \$912.

The only receivables not expected to be collected within one year are \$4,696 of notes and loans receivables in Welfare and Economic Development.

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Note 5 Receivables and Payables (Continued)

Disaggregation of Payables

Payables at September 30, 2006 are as follows:

| | <u>Accounts</u> | <u>Accrued Payroll</u> | <u>Total Payables</u> |
|----------------------------------|-------------------|----------------------------|---------------------------|
| Governmental Activities: | | | |
| General Government | \$ 90,275 | \$ 10,034 | \$ 100,309 |
| Public Safety | 5,271 | 1,049 | 6,320 |
| Public Works | 20,145 | 175 | 20,320 |
| Sanitation | 47 | | 47 |
| Health Services | 2,672 | 817 | 3,489 |
| Culture and Recreation | 3,784 | 946 | 4,730 |
| Convention and Tourism | 4,929 | 553 | 5,482 |
| Urban Redevelopment and Housing | 3,134 | 13 | 3,147 |
| Welfare | 6,208 | 135 | 6,343 |
| Economic Development Opportunity | 300 | 67 | 367 |
| Total Governmental Activities | <u>\$ 136,765</u> | <u>\$ 13,789</u> | <u>\$ 150,554</u> |
| Business-Type Activities: | | | |
| Airport System | \$ 13,959 | \$ 563 | \$ 14,522 |
| Parking Facilities | 225 | 114 | 339 |
| Nonmajor Fund | 3,802 | 651 | 4,453 |
| Total Business-Type Activities | <u>\$ 17,986</u> | <u>\$ 1,328</u> | <u>\$ 19,314</u> |

Interfund Receivable and Payable Balances

As of September 30, 2006, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the \$33,736 due from other funds in the General Fund, \$32,364 is a result of overdraws of pooled cash. All amounts are expected to be paid within one year. See table on next page.

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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, 2006:

| Summary Table of Interfund Receivables and Payables As of September 30, 2006 | | |
|---|----------------------|--------------------|
| | Due From Other Funds | Due To Other Funds |
| General Fund: | | |
| Fiduciary Funds | \$ 600 | \$ - |
| Categorical Grant-In-Aid | 19,216 | 120 |
| Internal Service Funds | 1,886 | |
| Nonmajor Governmental Funds | 12,034 | 1,534 |
| Total General Fund | <u>33,736</u> | <u>1,654</u> |
| Debt Service Funds: | | |
| Nonmajor Governmental Funds | 791 | |
| Total Debt Service Funds | <u>791</u> | |
| Airport System Fund: | | |
| Airport Operating Fund from the Airport I&C Fund | 1,068 | |
| Airport Debt Service Fund from the Airport PFC Fund | 130 | |
| Airport PFC Fund from Airport PFC I & C Fund | 56 | |
| Airport PFC I & C Fund to Airport PFC Fund | | 56 |
| Airport PFC Fund to the Airport Debt Service Fund | | 130 |
| Airport I&C Fund to the Airport Operating Fund | | 1,068 |
| Total Airport System Fund | <u>1,254</u> | <u>1,254</u> |
| Parking Fund: | | |
| Parking Operating from Parking Construction | 85 | |
| Parking Construction to Parking Operating | | 85 |
| Total Parking Fund | <u>85</u> | <u>85</u> |
| Categorical Grant-In-Aid: | | |
| General Fund | 120 | 19,216 |
| Internal Service Funds | 8 | 513 |
| Nonmajor Governmental Funds | 110 | 2,018 |
| Total Categorical Grant-In-Aid | <u>238</u> | <u>21,747</u> |
| Fiduciary Funds: | | |
| General Fund | | 600 |
| Total Fiduciary Funds | | <u>600</u> |
| Internal Service Funds: | | |
| General Fund | | 1,886 |
| Categorical Grant-In-Aid | 513 | 8 |
| Nonmajor Governmental Funds | | 100 |
| Internal Service Funds | 500 | 500 |
| Total Internal Service Funds | <u>1,013</u> | <u>2,494</u> |
| Nonmajor Governmental Funds: | | |
| General Fund | 1,534 | 12,034 |
| Categorical Grant-In-Aid | 2,018 | 110 |
| Debt Service Fund | | 791 |
| Internal Service Funds | 100 | |
| Nonmajor Enterprise Fund | | 48 |
| Nonmajor Governmental Funds | 6,014 | 6,014 |
| Total Nonmajor Governmental Funds | <u>9,666</u> | <u>18,997</u> |
| Nonmajor Enterprise Fund: | | |
| Nonmajor Governmental Funds | 48 | |
| Total Nonmajor Enterprise Fund | <u>48</u> | |
| Total | <u>\$ 46,831</u> | <u>\$ 46,831</u> |

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 2006. On December 2, 2004, the City issued \$33,090 in General Improvement Forward Refunding Bonds, Series 2006 with a forward delivery date of May 9, 2006. These Obligations were issued to refund certain tax-supported debt for interest cost savings and are payable from ad valorem taxes and from certain revenue generating operations.

The net proceeds from the sale of the General Improvement Forward Refunding Bonds Series 2006, which included an original premium of \$2,251, were applied, together with a cash contribution from the City, to fund an escrow fund 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 \$1,932 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 \$1,027. The Series 2006 General Improvement Forward Refunding Bonds are retired serially in the years 2009 through 2016, and bear interest rates ranging from 3.7% to 5.5%.

In July 2006, the City issued \$37,600 of Tax Anticipation Notes (TANs), Series 2006. Delivery of proceeds from the TANs occurred on July 11, 2006. The TANs are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by state laws. The TANs Series 2006 will retire in the year 2009 and bears an interest rate of 3.9%.

Proceeds of the TANs, Series 2006 will be used for constructing public safety improvements; constructing street, drainage, sidewalk, and bridge improvements; constructing improvements and renovations to municipal facilities; improving the library system; acquiring, constructing, and renovating park facilities; constructing infrastructure improvements; and constructing public health and safety improvements.

On February 5, 2003, Toyota Motor Manufacturing North America, Inc. selected the City for its sixth North American assembly plant. Subsequently, on May 22, 2003, the City established the Starbright Industrial Development Corporation (IDC) to act on behalf of the City and approved the "Starbright Agreement", which outlined the City's commitments to Toyota. These commitments included the acquisition of land for the Toyota plant through the Starbright IDC, reimbursement up to \$10,000 for site improvements, and reimbursement up to \$3,000 for a training facility.

The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003, were issued in June 2003 to finance acquisition and conveyance of the land to Toyota and site improvements. As of September 30, 2006, the amount of bonds outstanding was \$24,685, and this amount is reflected in the Governmental Activity Long-Term debt table. Under the terms of the Starbright Agreement, \$8,003 of the City's total commitment remains an obligation to be paid to Toyota. As such, this amount is reflected as an "Other Payable" in the long-term obligations table as of September 30, 2006.

In September 2004, City Council authorized the submission of a \$57,000 HUD 108 loan application to the Department of Housing and Urban Development (HUD), which was received August 2006. Proceeds of the loan will be 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. The amount of \$57,000 is reflected as a "Notes Payable" in the Governmental and Business-Type Activities Long-Term Debt table.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The City's general obligation, certificates of obligation, and TANs include a pledge of ad valorem taxes. Hotel occupancy taxes are pledged to the repayment of the Convention Center Expansion Revenue Bonds and municipal drainage revenue is pledged to the Municipal Drainage Bonds. The Municipal Facilities Corporation Lease Revenue Bonds (One Stop) include a pledge of lease payments derived through the One Stop's lease agreement with the City. The Hotel Empowerment Zone Bonds include a pledge of revenues derived from hotel's operations and the Starbright Industrial Development Corporation Revenue Bonds include a pledge of the City's payment from CPS Energy.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds and certificates of obligation. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow funds in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely 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, 2006, \$102,070 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, 2006 for governmental activity debt:

| Governmental Activity Long-Term Debt | | | | | | | |
|---|-----------------|-------------------------|--------------------|-------------------------------------|-----------------------|-----------------------|--|
| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2005 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2006 |
| General Obligation Bonds | | | | | | | |
| 1988 Refunding | \$ 132,978 | 2006 | 7.250-7.400 | \$ 1,735 | \$ - | \$ 1,735 | \$ - |
| 1996A Refunding | 82,235 | 2016 | 4.800-6.000 | 46,240 | | 38,120 | 8,120 |
| 1996B Refunding | 6,030 | 2008 | 6.700 | 2,150 | | 675 | 1,475 |
| 1998 Refunding | 30,855 | 2018 | 4.500-5.000 | 17,390 | | 955 | 16,435 |
| 1998 Forward Refunding | 53,950 | 2008 | 5.500-6.000 | 17,795 | | 2,790 | 15,005 |
| 1998A Refunding | 47,955 | 2019 | 4.000-5.250 | 30,280 | | 3,250 | 27,030 |
| 1999 | 12,000 | 2011 | 5.500 | 3,140 | | 450 | 2,690 |
| 2000 | 27,565 | 2020 | 4.500-5.000 | 18,575 | | 1,085 | 17,490 |
| 2000A | 15,615 | 2021 | 5.250-5.375 | 7,635 | | 545 | 7,090 |
| 2001 | 84,945 | 2022 | 3.000-5.250 | 48,210 | | 700 | 47,510 |
| 2002 Forward Refunding | 239,910 | 2013 | 5.000-5.250 | 178,340 | | 20,980 | 157,360 |
| 2002 | 55,850 | 2023 | 3.000-5.500 | 49,540 | | 2,750 | 46,790 |
| 2003 | 40,905 | 2014 | 2.750-5.000 | 32,015 | | 3,090 | 28,925 |
| 2003A | 55,710 | 2016 | 3.500-5.000 | 55,665 | | 2,125 | 53,540 |
| 2004 | 33,570 | 2024 | 2.375-4.750 | 33,570 | | | 33,570 |
| 2004 Refunding ² | 13,245 | 2016 | 1.875-4.650 | | 12,115 | 1,330 | 10,785 |
| 2005 | 116,170 | 2025 | 3.500-5.250 | 116,170 | | | 116,170 |
| 2006 Refunding | 33,900 | 2016 | 3.700-5.500 | | 33,090 | | 33,090 |
| Subtotal | \$ 1,083,388 | | | \$ 658,450 | \$ 45,205 | \$80,580 | \$ 623,075 |
| Tax -Exempt Certificates of Obligation | | | | | | | |
| Series 1996A | \$ 12,515 | 2006 | 4.650-4.750 | \$ 575 | \$ - | \$ 575 | \$ - |
| Series 1998 | 4,315 | 2018 | 4.700-5.000 | 1,755 | | 380 | 1,375 |
| Series 1998A | 36,535 | 2019 | 4.000-5.250 | 15,940 | | 1,825 | 14,115 |
| Series 1999 | 4,230 | 2011 | 5.750 | 1,110 | | 160 | 950 |
| Series 2000 | 8,490 | 2020 | 4.500-5.000 | 5,720 | | 335 | 5,385 |
| Series 2000A | 8,810 | 2021 | 5.250-5.375 | 4,305 | | 305 | 4,000 |
| Series 2000C | 6,415 | 2020 | 5.000-5.500 | 6,065 | | 260 | 5,805 |
| Series 2001 | 65,195 | 2014 | 4.000-5.250 | 53,680 | | 5,030 | 48,650 |
| Series 2002 | 69,930 | 2023 | 3.000-5.500 | 65,905 | | 1,780 | 64,125 |
| Series 2004 | 29,525 | 2024 | 2.000-5.000 | 29,085 | | 570 | 28,515 |
| Series 2005 | 10,535 | 2025 | 4.000-5.250 | 10,535 | | | 10,535 |
| Subtotal | \$ 256,495 | | | \$ 194,675 | \$ - | \$11,220 | \$ 183,455 |
| Subtotal Page 1 | \$ 1,339,883 | | | \$ 853,125 | \$ 45,205 | \$91,800 | \$ 806,530 |

(Continued on next page)

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

| Governmental Activity Long-Term Debt (Continued) | | | | | | | |
|--|--------------------|----------------------|-----------------------|--------------------------------|----------------|----------------|-----------------------------------|
| Issue | Original Amount | Final | | Balance | Additions | Deletions | Balance |
| | | Principal Payment | Interest Rates (%) | Outstanding October 1, 2005 | During Year | During Year | Outstanding September 30, 2006 |
| Subtotal Page 1 | \$ 1,339,883 | | | \$ 853,125 | \$ 45,205 | \$ 91,800 | \$ 806,530 |
| <u>Taxable Certificates of Obligation</u> | | | | | | | |
| Series 1996 | \$ 6,160 | 2009 | 6.550-6.050 | \$ 1,300 | \$ - | \$ 300 | \$ 1,000 |
| Series 1996B | 7,375 | 2008 | 6.800 | 1,040 | | 325 | 715 |
| Series 2000B | 1,755 | 2021 | 7.450-7.550 | 1,610 | | 55 | 1,555 |
| Series 2005A | 2,900 | 2007 | 4.610 | 2,900 | | | 2,900 |
| Subtotal | \$ 18,190 | | | \$ 6,850 | \$ - | \$ 680 | \$ 6,170 |
| <u>Tax Anticipation Notes</u> | | | | | | | |
| Series 2006 | \$ 37,600 | 2009 | 3.927 | \$ - | \$ 37,600 | \$ - | \$ 37,600 |
| Subtotal | \$ 37,600 | | | \$ - | \$ 37,600 | \$ - | \$ 37,600 |
| <u>Revenue Bonds¹</u> | | | | | | | |
| Series 1996 Occupancy Tax | \$ 182,012 | 2026 | 5.100-6.020 | \$ 86,897 | \$ - | \$ - | \$ 86,897 |
| 2003 Drainage | 44,150 | 2028 | 3.500-5.000 | 42,050 | | 1,100 | 40,950 |
| 2005 Drainage | 61,060 | 2030 | 3.500-5.250 | 61,060 | | 1,310 | 59,750 |
| Series 2001 Municipal Facility | 14,465 | 2020 | 3.800-5.200 | 12,300 | | 600 | 11,700 |
| Convention Series 2004A | 10,390 | 2029 | 5.000 | 10,390 | | | 10,390 |
| Convention Series 2004B | 111,425 | 2020 | 2.000-5.000 | 110,625 | | 1,375 | 109,250 |
| Hotel 2005A | 129,930 | 2039 | 5.000 | 129,930 | | | 129,930 |
| Hotel 2005B | 78,215 | 2028 | 4.500-5.310 | 78,215 | | | 78,215 |
| Starbright Industrial Dev Corp | 24,685 | 2033 | 2.180-5.110 | 24,685 | | | 24,685 |
| Subtotal | \$ 656,332 | | | \$ 556,152 | \$ - | \$ 4,385 | \$ 551,767 |
| TOTAL | \$ 2,052,005 | | | \$ 1,416,127 | \$ 82,805 | \$ 96,865 | \$ 1,402,067 |

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 2006 has resulted in an increase of \$15,440 in revenue bonds payable. This increase is reflected on the combined Statement of Net Assets but is not shown in this above table.

² As of October 1, 2005, the Parking Fund General Improvement Refunding Bond was reclassified to governmental debt. This balance is reflected in this table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all general obligation bonds, certificates of obligation, tax anticipation notes, and all revenue bonds outstanding as of September 30, 2006 is as follows:

| Year Ending September 30, | Principal and Interest Requirements | | | | | | | | Total Annual Requirements |
|------------------------------|-------------------------------------|------------|-------------------------------|-----------|---------------------------|----------|---------------|------------|------------------------------|
| | General Obligation Bonds | | Certificates of Obligation | | Tax Anticipation Notes | | Revenue Bonds | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2007 | \$ 50,975 | \$ 30,904 | \$ 17,085 | \$ 8,953 | \$ - | \$ 1,189 | \$ 5,930 | \$ 26,824 | \$ 141,860 |
| 2008 | 54,500 | 28,362 | 16,370 | 8,112 | | 1,477 | 6,665 | 26,621 | 142,107 |
| 2009 | 55,720 | 25,359 | 16,445 | 7,333 | 37,600 | 1,477 | 9,505 | 24,200 | 177,639 |
| 2010 | 59,350 | 22,900 | 15,340 | 6,609 | | | 12,630 | 23,880 | 140,709 |
| 2011 | 62,615 | 19,953 | 15,965 | 5,876 | | | 9,832 | 23,427 | 137,668 |
| 2012-2016 | 185,835 | 62,447 | 60,085 | 17,678 | | | 54,693 | 111,949 | 492,687 |
| 2017-2021 | 116,755 | 23,745 | 33,635 | 7,827 | | | 91,627 | 98,212 | 371,801 |
| 2022-2026 | 37,325 | 2,407 | 14,700 | 1,049 | | | 125,215 | 71,740 | 252,436 |
| 2027-2031 | | | | | | | 107,395 | 42,456 | 149,851 |
| 2032-2035 | | | | | | | 85,755 | 20,933 | 106,688 |
| 2036-2039 | | | | | | | 42,520 | 4,331 | 46,851 |
| Total | \$ 623,075 | \$ 216,077 | \$ 189,625 | \$ 63,437 | \$ 37,600 | \$ 4,143 | \$ 551,767 | \$ 474,573 | \$ 2,160,297 |

| Total Principal and Interest Payable within One Year | | | | | | | | |
|--|-----------|--|-----------|--|----------|-----------|--|------------|
| Principal | \$ 50,975 | | \$ 17,085 | | \$ - | \$ 5,930 | | \$ 73,990 |
| Interest | 30,904 | | 8,953 | | 1,189 | 26,824 | | 67,870 |
| Total | \$ 81,879 | | \$ 26,038 | | \$ 1,189 | \$ 32,754 | | \$ 141,860 |

¹ A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrues from the date of delivery and will be payable only at maturity or redemption. Interest accreted through fiscal year 2006 has resulted in an increase of \$15,440 in revenue bonds payable. The increase is reflected on the Combined Statement of Net Assets but is not in this table.

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Note 6 Long-Term Debt (Continued)**Primary Government (City) (Continued)****Governmental Activity Long-Term Debt (Continued)**

| Authorized But Unissued General Obligation Debt | | | | |
|---|--|-------------------|-------------------------|-------------------------------|
| Authorization Date | Purpose | Amount Authorized | Bonds Previously Issued | Bonds Authorized But Unissued |
| 01-26-80 ¹ | Drainage and Flood Control | \$ 21,637 | \$ 17,413 | \$ 4,224 |
| 01-26-80 ¹ | Fire Protection | 4,257 | 2,125 | 2,132 |
| 01-26-80 ¹ | Libraries | 4,978 | 3,926 | 1,052 |
| 01-26-80 ¹ | Street, Bridge, and Related Improvements | 43,287 | 34,035 | 9,252 |
| 05-07-94 | Street Improvements | 25,600 | 25,600 | |
| 05-07-94 | Drainage Improvements | 34,400 | 34,400 | |
| 05-07-94 | Parks and Recreation | 41,600 | 41,600 | |
| 05-01-99 | Streets and Pedestrian Improvements | 41,300 | 41,300 | |
| 05-01-99 | Drainage | 19,000 | 19,000 | |
| 05-01-99 | Flood Control | 12,200 | 12,200 | |
| 05-01-99 | Parks and Recreation | 24,200 | 24,200 | |
| 05-01-99 | Library System | 13,200 | 13,200 | |
| 05-01-99 | Public Safety | 30,300 | 30,300 | |
| 11-04-03 ² | Street and Pedestrian | 29,398 | 18,828 | 10,570 |
| 11-04-03 ² | Drainage | 18,913 | 15,492 | 3,421 |
| 11-04-03 ² | Parks & Recreation | 27,224 | 24,522 | 2,702 |
| 11-04-03 ² | Library System | 3,965 | 3,065 | 900 |
| 11-04-03 ² | Public Health and Safety | 35,500 | 14,422 | 21,078 ³ |
| Total | | \$ 430,959 | \$ 375,628 | \$ 55,331 |

¹ In addition to the debt authorized on May 1, 1999, and November 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 An additional \$115,000 was authorized November 4, 2003, of which \$48,325 remains to be issued.

³ Includes \$9,654 which was included in the issuance of the Tax Anticipation Notes Series 2006, which the City will count general obligation authorization.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2006 was \$56,750,907, which provides a debt ceiling of \$5,675,091. The total outstanding debt that is secured by an ad valorem tax pledge is \$850,300.

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.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

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, 2006 were approximately \$3,200.

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 | \$ 27,899 |
| Less: Accumulated Depreciation | (9,136) |
| Total | <u>\$ 18,763</u> |

As of September 30, 2006, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities, as follows:

| | <u>Capital Leases</u> | <u>Operating Leases</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|------------------|
| Fiscal Year Ending September 30: | | | |
| 2007 | \$ 3,157 | \$ 1,768 | \$ 4,925 |
| 2008 | 2,904 | 1,278 | 4,182 |
| 2009 | 2,104 | 1,261 | 3,365 |
| 2010 | 1,894 | 1,063 | 2,957 |
| 2011 | 1,011 | 746 | 1,757 |
| 2012-2016 | | 3,477 | 3,477 |
| 2017-2021 | | 3,311 | 3,311 |
| 2022-2026 | | 365 | 365 |
| Future Minimum Lease Payments | 11,070 | <u>\$ 13,269</u> | <u>\$ 24,339</u> |
| Less: Interest | (803) | | |
| Present Value of Future Minimum Lease Payments | 10,267 | | |
| Less: Current Portion | (2,822) | | |
| Capital Leases, Net of Current Portion | <u>\$ 7,445</u> | | |

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt

Business-Type 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 and Internal Service 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.

Parking System - The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Certain long-term debt is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt 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. As of October 1, 2005, the General Obligation Series 2004A Bonds were allocated back to governmental long-term debt and are paid from ad valorem taxes. Additionally, long-term debt for the Parking System includes revenue bonds, which are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking System.

Capitalized Interest Costs - Interest costs incurred on revenue bonds, general obligation bonds, and other borrowings totaled \$14,386. For fiscal year 2006, the amounts of \$392 were capitalized for the Airport System as part of the cost of additions to the Airport System.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds and general obligation bonds for the fiscal year ended September 30, 2006.

| Business-Type Long-Term Debt | | | | | | | |
|-------------------------------------|-------------------|-------------------------|--------------------|-------------------------------------|-----------------------|-----------------------|--|
| Issues | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2005 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2006 |
| Airport System | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 1996 | \$ 38,000 | 2014 | 5.700-5.750 | \$ 17,975 | \$ - | \$ 250 | \$ 17,725 |
| Series 2001 | 17,795 | 2016 | 5.375 | 17,795 | | | 17,795 |
| Series 2002 | 92,470 | 2027 | 5.000-5.750 | 91,375 | | 1,155 | 90,220 |
| Series 2002 PFC | 37,575 | 2027 | 4.000-5.750 | 35,150 | | 880 | 34,270 |
| Series 2003 Refunding | 50,230 | 2013 | 5.500-6.000 | 42,280 | | 4,315 | 37,965 |
| Series 2003A | 8,175 | 2006 | 2.000-2.250 | 2,190 | | 2,190 | |
| Series 2003B | 3,255 | 2009 | 2.300-3.000 | 3,255 | | | 3,255 |
| Series 2005 PFC | 38,085 | 2030 | 3.375-5.250 | 38,085 | | 825 | 37,260 |
| Subtotal | <u>\$ 285,585</u> | | | <u>\$ 248,105</u> | <u>\$ -</u> | <u>\$ 9,615</u> | <u>\$ 238,490</u> |
| Parking System | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 2000 | \$ 24,845 | 2024 | 5.000-5.750 | \$ 23,995 | \$ - | \$ 600 | \$ 23,395 |
| General Obligation Bonds: | | | | | | | |
| Series 2004A Refunding ¹ | 13,245 | 2016 | 1.400-4.650 | 12,115 | | 12,115 | |
| Subtotal | <u>\$ 38,090</u> | | | <u>\$ 36,110</u> | <u>\$ -</u> | <u>\$ 12,715</u> | <u>\$ 23,395</u> |
| Total | <u>\$ 323,675</u> | | | <u>\$ 284,215</u> | <u>\$ -</u> | <u>\$ 22,330</u> | <u>\$ 261,885</u> |

¹ As of October 1, 2005, Parking System's General Improvement Forward Refunding Bond, Series 2004A was reclassified to governmental debt. This balance is now reflected in governmental long-term activities debt table.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds outstanding at September 30, 2006, are as follows:

| Business-Type Long-Term Debt | | | | | | |
|------------------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|
| Year Ending | Airport System | | | Parking System | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| Sept. 30: | | | | | | |
| 2007 | \$ 9,605 | \$ 12,819 | \$ 22,424 | \$ 620 | \$ 1,295 | \$ 1,915 |
| 2008 | 10,155 | 12,342 | 22,497 | 660 | 1,264 | 1,924 |
| 2009 | 11,595 | 11,831 | 23,426 | 850 | 1,230 | 2,080 |
| 2010 | 12,210 | 11,237 | 23,447 | 350 | 1,187 | 1,537 |
| 2011 | 13,400 | 10,548 | 23,948 | 575 | 1,169 | 1,744 |
| 2012-2016 | 69,890 | 40,854 | 110,744 | 6,180 | 5,075 | 11,255 |
| 2017-2021 | 40,000 | 25,045 | 65,045 | 8,105 | 3,173 | 11,278 |
| 2022-2026 | 52,110 | 13,252 | 65,362 | 6,055 | 710 | 6,765 |
| 2027-2030 | 19,525 | 1,657 | 21,182 | | | |
| Total | <u>\$ 238,490</u> | <u>\$ 139,585</u> | <u>\$ 378,075</u> | <u>\$ 23,395</u> | <u>\$ 15,103</u> | <u>\$ 38,498</u> |

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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 acquisition of a high-capacity trailer. 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 business-type activities are as follows:

| | |
|--------------------------------|---------------|
| Machinery and Equipment | \$ 709 |
| Less: Accumulated Depreciation | (494) |
| Total | <u>\$ 215</u> |

As of September 30, 2006, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

| | |
|--|-------------------|
| | Capital Leases |
| Fiscal Year Ending September 30, 2007 | <u>\$ 117</u> |
| Future Minimum Lease Payments | 117 |
| Less: Interest | (2) |
| Present Value of Future Minimum Lease Payments | <u>115</u> |
| Less: Current Portion | (115) |
| Capital Leases, net of current portion | <u>\$ -</u> |

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Note 6 Long-Term Debt (Continued)**Primary Government (City) (Continued)****Governmental and Business-Type Activities Long-Term Debt**

Long-term obligations and amounts due within one year

| | Beginning | | | Ending | Due Within |
|---------------------------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Balance | Additions | Reductions | Balance | One Year |
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| General Obligation Bonds | \$ 658,450 | \$ 45,205 | \$ 80,580 | \$ 623,075 | \$ 50,975 |
| Tax-Exempt Certificates of Obligation | 194,675 | | 11,220 | 183,455 | 13,455 |
| Taxable Certificates of Obligation | 6,850 | | 680 | 6,170 | 3,630 |
| Tax Anticipation Notes | | 37,600 | | 37,600 | |
| Revenue Bonds | 556,152 | | 4,385 | 551,767 | 5,930 |
| | <u>1,416,127</u> | <u>82,805</u> | <u>96,865</u> | <u>1,402,067</u> | <u>73,990</u> |
| Unamortized (Discount)/Premium | 49,799 | 2,241 | 3,851 | 48,189 | 3,985 |
| Deferred Amount on Refunding | (13,839) | (1,396) | (6,637) | (8,598) | (1,335) |
| Total Bonds Payable | <u>1,452,087</u> | <u>83,650</u> | <u>94,079</u> | <u>1,441,658</u> | <u>76,640</u> |
| Other Payables: | | | | | |
| Accrued Arbitrage Rebate Payable | 1,688 | | 1,287 | 401 | |
| Capital Leases | 7,232 | 6,218 | 3,183 | 10,267 | 2,822 |
| Compensated Absences | 128,653 | 65,559 | 52,806 | 141,406 | 52,238 |
| Notes Payable | 1,369 | 57,000 | 364 | 58,005 | 1,985 |
| Other Payables | | 8,003 | | 8,003 | 3,384 |
| Total Other Payables | <u>138,942</u> | <u>136,780</u> | <u>57,640</u> | <u>218,082</u> | <u>60,429</u> |
| Total Governmental Activities | | | | | |
| Long-Term Liabilities | <u>\$ 1,591,029</u> | <u>\$ 220,430</u> | <u>\$ 151,719</u> | <u>\$ 1,659,740</u> | <u>\$ 137,069</u> |
| Business-Type Activities: | | | | | |
| Bond Payable: | | | | | |
| General Obligation Bonds | \$ 12,115 | \$ - | \$ 12,115 | \$ - | \$ - |
| Revenue Bonds | 272,100 | | 10,215 | 261,885 | 10,225 |
| | <u>284,215</u> | | <u>22,330</u> | <u>261,885</u> | <u>10,225</u> |
| Unamortized (Discount)/Premium | 3,012 | | (801) | 3,813 | |
| Deferred Amount on Refunding | (5,053) | | (1,663) | (3,390) | |
| Total Bonds Payable | <u>282,174</u> | | <u>19,866</u> | <u>262,308</u> | <u>10,225</u> |
| Other Payables: | | | | | |
| Aviation | 1,565 | 176 | 1,573 | 168 | 168 |
| Parking | 7 | | | 7 | 7 |
| Nonmajor Fund | 1,030 | | 26 | 1,004 | 343 |
| Total Other Payables | <u>2,602</u> | <u>176</u> | <u>1,599</u> | <u>1,179</u> | <u>518</u> |
| Accrued Arbitrage Rebate Payable | | 30 | | 30 | 30 |
| Capital Leases Nonmajor Fund | 263 | | 148 | 115 | 115 |
| Compensated Absences | 2,002 | 2,997 | 1,841 | 3,158 | 526 |
| Total Other Payables | <u>4,867</u> | <u>3,203</u> | <u>3,588</u> | <u>4,482</u> | <u>1,189</u> |
| Total Business-Type Activities | | | | | |
| Long-Term Liabilities | <u>\$ 287,041</u> | <u>\$ 3,203</u> | <u>\$ 23,454</u> | <u>\$ 266,790</u> | <u>\$ 11,414</u> |

The accreted interest through fiscal year 2006 has resulted in an increase of \$15,440 in Hotel-Motel Tax Revenue Bonds Payable in governmental activities. The accreted interest in the amount of \$15,440 is reflected on the Statement of Net Assets, but is not reflected in this table.

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, 2006:

| Governmental Activities | | | | | |
|-------------------------------|-----------------|------------------|------------------|------------------|-------------------|
| Fund Type | Short-Term | Short-Term | Total | | |
| | Available | Remaining | Short-Term | Long-Term | Total |
| Governmental Funds | \$ 6,984 | \$ 44,815 | \$ 51,799 | \$ 86,971 | \$ 138,770 |
| Internal Service Funds | | 439 | 439 | 2,197 | 2,636 |
| Total Governmental Activities | <u>\$ 6,984</u> | <u>\$ 45,254</u> | <u>\$ 52,238</u> | <u>\$ 89,168</u> | <u>\$ 141,406</u> |

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 | \$ 236 | \$ 1,182 | \$ 1,418 |
| Parking | 32 | 158 | 190 |
| Nonmajor Fund | 258 | 1,292 | 1,550 |
| Total Business-Type Activities | <u>\$ 526</u> | <u>\$ 2,632</u> | <u>\$ 3,158</u> |

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation, and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, 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, 2006, the aggregate principal amount payable are as follows: five series of Education Facility Revenue Bonds in the amount of \$59,670 outstanding; two series of Health Facilities Development Bonds in the amount of \$10,700 outstanding; two series of Industrial Revenue Bonds in the amount of \$12,250 outstanding; and one series of Empowerment Zone Development Revenue Bonds in the amount of \$21,900 outstanding.

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, 2006, 28 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of \$234,657 and an aggregate principal amount issued of \$221,480.

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 be made when due the principal, premium, interest on, and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2006 was \$0 and \$3,800, respectively.

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 and loans are not reported as liabilities in the accompanying financial statements.

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 the Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2006, the aggregate amount of the outstanding loan totaled \$16,695.

CPS Energy

As of January 31, 2006, the bond ordinances for new series bonds issued on and after February 1, 1994 contained among others, the following provisions:

Funds 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 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 City, not to exceed 14.0% of the gross revenues of CPS Energy, and (h) 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 General Fund of the City each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City. The net revenues of CPS Energy are pledged to the payment of principal and interest on the new series bonds. All new series bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

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Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

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 the Systems 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 the Systems as and when the same shall become due.

Revenue Bonds

A summary of revenue bonds is as follows:

| CPS Energy Revenue Bonds | | |
|---|---|---------------------|
| Bond Series | Weighted Average Interest Rate on Outstanding Bonds | January 31, 2006 |
| Tax Exempt New Series Bonds, 1994A-2005A; 2007-2025 | 4.8% | \$ 2,429,645 |
| Taxable New Series | | |
| Taxable New Series Bonds, 1998-2000; 2007-2021 | 6.7% | 131,240 |
| Total | | 2,560,885 |
| Tax-exempt Variable Rate Series Bonds, 2003-2004, 2004-2033 | 4.9% | 407,000 |
| Total Revenue Bonds Outstanding | | 2,967,885 |
| Less: Current Maturities of Bonds | | 135,155 |
| Total Revenue Bonds, Net of Current Maturities | | \$ 2,832,730 |

The table on the beginning of the next page 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 approximately 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 approximately 3.3% for the 2003 and 2004 Junior Lien Bonds.

Note 6 Long-Term Debt (Continued)**CPS Energy (Continued)****Revenue Bonds (Continued)**

Principal and interest amounts due for the next five years and thereafter to maturity are:

| CPS Energy Principal and Interest Requirements | | | |
|---|---------------------|---------------------|---------------------|
| Year | Principal | Interest | Total |
| 2007 | \$ 135,155 | \$ 144,921 | \$ 280,076 |
| 2008 | 142,155 | 137,941 | 280,096 |
| 2009 | 148,570 | 130,701 | 279,271 |
| 2010 | 154,790 | 123,019 | 277,809 |
| 2011 | 163,180 | 114,862 | 278,042 |
| 2012-2016 | 783,095 | 438,984 | 1,222,079 |
| 2017-2021 | 632,010 | 257,964 | 889,974 |
| 2022-2026 | 480,430 | 117,172 | 597,602 |
| 2027-2031 | 228,500 | 46,097 | 274,597 |
| 2032-2033 | 100,000 | 4,890 | 104,890 |
| Totals | <u>\$ 2,967,885</u> | <u>\$ 1,516,551</u> | <u>\$ 4,484,436</u> |

In November 2004, CPS Energy issued \$160,000 of variable rate junior lien revenue bonds. The bonds were issued at par value with an initial one-year borrowing rate of 2.2%. The proceeds were used toward the purchase of an electric plant and to pay bond issuance costs. On December 1, 2005, CPS Energy opted to redeem \$3,000 of the 2004 Junior Lien Revenue Bond's principal and then remarket the remaining \$157,000 of the bonds for a two-year interest rate of approximately 3.6% per annum. 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.

In April 2005, CPS Energy issued \$535,300 of tax-exempt New Series 2005 Bonds. Included were par amounts of \$294,600 of revenue refunding bonds and \$240,700 of revenue bonds. The true interest cost of these bonds was approximately 4.5%. CPS Energy received net proceeds of \$250,000 from the issuance of the revenue bonds. Proceeds will be used to partially fund transmission, electric distribution, information technology and communication, and general property construction. Refunding of higher cost outstanding bonds resulted in net present value debt service savings of \$19,700, or approximately 6.7% of the par amount of the refunded bonds. This transaction resulted in a loss for accounting purposes of \$14,300, which has been deferred and will be amortized over the shorter life of either the refunded or refunding bonds.

In October 2005, CPS Energy issued \$197,300 of tax-exempt New Series 2005A Bonds. The true interest cost of these bonds was approximately 4.6%. CPS Energy received net proceeds of \$201,500 from the issuance of the bonds. Of this amount, \$200,000 was used to retire commercial paper, with the remaining used to pay costs and expenses relating to the issuance of the bonds.

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 | Additions During Year | Decreases During Year | Balance |
| | | | | Outstanding February 1, 2005 | | | Outstanding January 31, 2006 |
| Revenue and Refunding Bonds | | | | | | | |
| 1992 Tax-Exempt | \$ 700,805 | 2006 | 6.048 | \$ 36,875 | \$ - | \$ 36,875 | \$ - |
| 1994-A Tax-Exempt | 684,700 | 2012 | 5.008 | 68,965 | | | 68,965 |
| 1994-C Tax-Exempt | 56,000 | 2006 | 5.008 | 42,710 | | 42,710 | |
| 1995 Tax-Exempt | 125,000 | 2007 | 5.500 | 11,300 | | 5,500 | 5,800 |
| 1997 Tax-Exempt | 350,000 | 2020 | 5.738 | 169,715 | | 165,630 | 4,085 |
| 1997 Tax-Exempt | 311,170 | 2014 | 5.509 | 102,715 | | 360 | 102,355 |
| 1998A Tax-Exempt | 785,515 | 2021 | 4.918 | 582,965 | | 32,925 | 550,040 |
| 1998B Taxable | 99,615 | 2020 | 6.343 | 89,870 | | 2,055 | 87,815 |
| 2000A Tax-Exempt | 170,770 | 2010 | 5.374 | 15,795 | | 4,625 | 11,170 |
| 2000B Taxable | 50,425 | 2021 | 7.403 | 45,010 | | 1,585 | 43,425 |
| 2001 Tax-Exempt | 115,280 | 2011 | 3.843 | 106,430 | | | 106,430 |
| 2002 Tax-Exempt | 436,090 | 2017 | 4.055 | 436,090 | | | 436,090 |
| 2002 Tax-Exempt | 140,615 | 2020 | 4.751 | 140,615 | | 130,090 | 10,525 |
| 2003 Tax-Exempt Junior Lien | 250,000 | 2033 | Variable | 250,000 | | | 250,000 |
| 2003A Tax-Exempt | 93,935 | 2014 | 3.675 | 89,770 | | 620 | 89,150 |
| 2003 Tax-Exempt | 350,490 | 2013 | 3.081 | 312,400 | | | 312,400 |
| 2004 Tax-Exempt Junior Lien | 160,000 | 2027 | Variable | 160,000 | | 3,000 | 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 |
| | | | | <u>2,661,225</u> | <u>732,635</u> | <u>425,975</u> | <u>2,967,885</u> |
| Less Bond Current Maturities | | | | 127,255 | 7,900 | | 135,155 |
| Less Bond Discount/(Premium) | | | | (89,149) | (34,438) | 21,423 | (102,164) |
| Less Bond Acquisition Costs | | | | 134,227 | 9,714 | (22,643) | 121,298 |
| Revenue Bonds, Net | | | | <u>2,488,892</u> | <u>749,459</u> | <u>424,755</u> | <u>2,813,596</u> |
| Tax-Exempt Commercial Paper (TECP) | | | | <u>350,000</u> | | <u>200,000</u> | <u>150,000</u> |
| Long-term Debt, Net | | | | <u>\$ 2,838,892</u> | <u>\$ 749,459</u> | <u>\$ 624,755</u> | <u>\$ 2,963,596</u> |

San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of \$635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund in advance of maturity \$253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, \$330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, \$14,500 of other bonded debt of annexed water districts, and \$49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water-related utilities.

The System - City Ordinance No. 75686 defines SAWS as all properties, facilities and plants 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; however, the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code.

Note 6 Long-Term Debt (Continued)**San Antonio Water System (SAWS) (Continued)**

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

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.

Stormwater - In addition to the water-related utilities that the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the stormwater program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The stormwater program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the stormwater program are not considered when determining compliance with debt covenants contained in City Ordinance No. 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

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

Revenue Bonds - On December 15, 2005, SAWS issued \$298,220 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005. The proceeds from the sale of the bonds were used to (i) advance refund the \$70,200 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 1999; (ii) refund \$227,000 in outstanding commercial paper notes; and (iii) pay the cost of issuing the bonds. The bonds are secured together with other outstanding senior lien obligations solely by a lien on and pledge of net revenues. The advance refunding reduced SAWS' total debt service payments over the next 20 years by approximately \$7,900 and SAWS obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$5,900.

Senior Lien Water System Revenue Bonds, comprising of Series 1996, Series 1997, Series 2001, Series 2002, Series 2002-A, Series 2004, and Series 2005, outstanding in the amounts of \$1,041 at December 31, 2005 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 amount of \$214,090 at December 31, 2005 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.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Subordinate Lien Water System Revenue Bonds comprising of Series 2003-A and 2003-B, outstanding in the amount of \$118,435 at December 31, 2005 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. Revenue bonds currently outstanding are as follows:

| San Antonio Water System | | |
|--|----------------|--------------|
| Purpose | Interest Rates | Amount |
| Build, Improve, Extend, Enlarge, and Repair the System | 0.10 - 6.25% | \$ 1,373,925 |

The following summarizes transactions of the revenue bonds for the year ended December 31, 2005:

| | Beginning | | Ending | | Due Within One Year |
|--|--------------|------------|------------|---------------|------------------------|
| | Balance | | Balance | | |
| | Jan. 1, 2005 | Additions | Reductions | Dec. 31, 2005 | |
| Bonds Payable | \$ 1,162,410 | \$ 298,220 | \$ 86,705 | \$ 1,373,925 | \$ 22,415 |
| Deferred Amounts | | | | | |
| For Issuance (Discounts)/Premiums/(Losses) | (28,031) | 3,143 | 5,302 | 25,872 | |
| Total Bonds Payable, Net | \$ 1,134,379 | \$ 295,077 | \$ 81,403 | \$ 1,348,053 | \$ 22,415 |

Annual debt service requirements are shown as follows:

| San Antonio Water System Annual Debt Service Requirements Revenue Bonds | | | | | | |
|---|-----------------------------|-----------|-----------------------------|-----------|-----------------------------|------------|
| Year Ended December 31, | Subordinate Lien | | Junior Lien | | Senior Lien | |
| | Revenue and Refunding Bonds | | Revenue and Refunding Bonds | | Revenue and Refunding Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 2,170 | \$ 4,951 | \$ 5,100 | \$ 7,247 | \$ 15,145 | \$ 52,748 |
| 2007 | 2,275 | 4,860 | 7,850 | 7,044 | 14,755 | 51,931 |
| 2008 | 2,375 | 4,765 | 8,085 | 6,796 | 18,705 | 51,045 |
| 2009 | 2,485 | 4,665 | 10,285 | 6,520 | 19,585 | 50,047 |
| 2010 | 2,600 | 4,561 | 12,555 | 6,186 | 20,065 | 49,024 |
| 2011-2015 | 14,880 | 21,076 | 69,455 | 24,550 | 110,435 | 229,078 |
| 2016-2020 | 18,590 | 17,669 | 74,690 | 11,186 | 144,450 | 195,778 |
| 2021-2025 | 23,235 | 13,414 | 26,070 | 1,504 | 233,570 | 147,103 |
| 2026-2030 | 29,035 | 8,094 | | | 200,335 | 83,998 |
| 2031-2035 | 20,790 | 1,764 | | | 71,145 | 58,069 |
| 2036-2040 | | | | | 193,210 | 24,802 |
| Total | \$ 118,435 | \$ 85,819 | \$ 214,090 | \$ 71,033 | \$1,041,400 | \$ 993,623 |

Note 6 Long-Term Debt (Continued)**San Antonio Water System (SAWS) (Continued)**

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.

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2005, 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, 2005 |
|---------------|-------------|--------------|---------------------------------|------------------------|-----------------|-----------------------------------|
| Series 2003 | May 1, 2033 | Bear Stearns | Aaa/ AAA/ AAA | BMA | 4.18% | \$ (2,615) |

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 issues in a weekly mode and achieves 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, 2005 of \$2,615. 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 anticipated 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, 2005, 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, 2005. 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 for any reason. Bear Stearns may terminate a swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured, and Bears Stearns cannot terminate as long as the insurer does not fail to perform. If the swap should be terminated, the Series 2003 Bonds would no longer carry synthetic fixed interest rates. If at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 2005, 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 | | | | |
|--|----------------------------|------------------|----------------------|-------------------|
| <u>Year</u> | <u>Variable Rate Bonds</u> | | <u>Interest Rate</u> | <u>Total</u> |
| | <u>Principal</u> | <u>Interest</u> | <u>Swap, Net</u> | |
| 2006 | \$ 2,170 | \$ 4,141 | \$ 784 | \$ 7,095 |
| 2007 | 2,275 | 4,062 | 769 | 7,106 |
| 2008 | 2,375 | 3,979 | 753 | 7,107 |
| 2009 | 2,485 | 3,892 | 737 | 7,114 |
| 2010 | 2,600 | 3,802 | 719 | 7,121 |
| 2011-2015 | 14,880 | 17,498 | 3,312 | 35,690 |
| 2016-2020 | 18,590 | 14,526 | 2,749 | 35,865 |
| 2021-2025 | 23,235 | 10,812 | 2,046 | 36,093 |
| 2026-2030 | 29,035 | 6,169 | 1,168 | 36,372 |
| 2031-2033 | 20,790 | 1,003 | 190 | 21,983 |
| Total | <u>\$ 118,435</u> | <u>\$ 69,884</u> | <u>\$ 13,227</u> | <u>\$ 201,546</u> |

Capitalized Interest Costs - Interest costs incurred on revenue bonds and commercial paper debt totaled \$61,479 during the 12 months ended December 31, 2005, of which \$16,300 was capitalized as part of the cost of SAWS' utility plant additions.

Note Payable - During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights from certain CPS Energy properties. A note was signed for 116 payments of \$40 at an interest rate of 7.5%. The liability as of December 31, 2005 is included in the Statement of Net Assets for both the current portion of \$390 and long-term amount of \$990. The annual principal and interest requirements are as follows:

| San Antonio Water System Principal and Interest Requirements | | | |
|---|------------------|-----------------|--------------------------------------|
| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Annual Requirements</u> |
| 2006 | \$ 390 | \$ 90 | \$ 480 |
| 2007 | 420 | 60 | 480 |
| 2008 | 452 | 28 | 480 |
| 2009 | 118 | 2 | 120 |
| Total | <u>\$ 1,380</u> | <u>\$ 180</u> | <u>\$ 1,560</u> |

Note 7 Commercial Paper Programs and Other Borrowings

Primary Government (City)

Revolving Line of Credit

The City used a revolving line of credit for the Housing Asset Recovery Program. The line of credit was used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The line of credit was paid in November 2005.

| Revolving Line of Credit | | | |
|--------------------------|-----------|-----------|-------------------|
| Beginning Balance | Increases | Decreases | Ending Balance |
| \$ 301 | \$ - | \$ 301 | \$ - |

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 (the Systems), and refinancing or refunding any outstanding obligations that are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. 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 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 credit agreement is currently extended until November 1, 2010, and may be renewed for additional periods.

On October 27, 2005, CPS Energy issued \$197,300 of New Series 2005A Revenue Refunding Bonds to redeem \$200,000 of the outstanding TECP. The TECP balance outstanding was \$150,000 at January 31, 2006.

As of January 31, 2006, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing new series bonds and junior lien obligations.

As of January 31, 2006, a summary of TECP is as follows:

| | | |
|---|----|---------|
| TECP Outstanding | \$ | 150,000 |
| Weighted Average Interest Rate of Outstanding TECP, Approximate | | 3.10% |
| Average Life of Outstanding TECP (Approximate Number of Days) | | 96 |

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Note 7 Commercial Paper Programs and Other Borrowings (Continued)

San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a Tax Exempt Commercial Paper (TECP) that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On November 17, 2005, the City Council approved the expansion of the TECP from \$350,000 to \$500,000. The increase in the TECP provides interim financing capacity for the increased level of future expenditures on water resource projects. Notes payable under the TECP cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the TECP may not extend past June 28, 2041.

The City has covenanted in the ordinance authorizing the TECP Program to maintain at all times credit facilities with banks or other financial institutions that would provide available borrowing sufficient to pay the principal of the TECP. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the TECP, the City entered into the 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 JP Morgan Trust Company, National Association.

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

Commercial paper notes of \$98,000 are outstanding as of December 31, 2005. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. The TECP notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement and because management intends to continue the remarketing of the TECP notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 2.72% to 3.17%, and maturities range from 65 to 155 days. The outstanding notes at December 31, 2005 had an average rate of 3.02% and averaged 81 days to maturity.

The following summarizes transactions of the TECP Program for the year ended December 31, 2005.

| | Beginning Balance January 1, 2005 | | Additions | Reductions | Ending Balance December 31, 2005 | Due within One Year |
|--------------------------------------|---|-----------|------------|------------|--|---------------------------|
| Tax-Exempt Commercial Paper Notes | \$ 238,400 | \$ 86,600 | \$ 227,000 | \$ 98,000 | \$ - | |

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Note 8 Pension and Retirement Plans**Primary Government (City)****General Plan Information**

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

| Contributory Pension and Retirement Plans | | | | | | |
|---|---|--|-----------------|-----------------------|-----------------------|--------------------|
| Entity | Title | Type of Plan | Covered Payroll | Employee Contribution | Employer Contribution | Total Contribution |
| City | Fire and Police Pension Fund | Single Employer Defined Benefit Plan | \$ 208,480 | \$ 25,801 | \$ 51,614 | \$ 77,415 |
| | Texas Municipal Retirement System (TMRS) | Nontraditional Hybrid Defined Benefit Agent Plan | \$ 220,536 | \$ 13,232 | \$ 27,077 | \$ 40,309 |
| Component Units: | | | | | | |
| SAWS | ¹ Texas Municipal Retirement System (TMRS) | Nontraditional Defined Benefit Agent Plan | Not Available | \$ 1,917 | \$ 2,101 | \$ 4,018 |
| | ² PMLIC Contract | Single Employer Defined Benefit Plan | \$ 59,476 | \$ - | \$ 3,689 | \$ 3,689 |
| CPS Energy | ³ CPS All Employees Plan | Single Employer Defined Benefit Plan | \$ 198,441 | \$ 9,570 | \$ 7,131 | \$ 16,701 |

¹ Plan year ended December 31, 2005

² Plan year ended December 31, 2005

³ Fiscal year ended January 31, 2006

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time firefighters and police officers through the Pension Fund. Employees who terminate, having 5 to 20 years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for 20 years or more shall, upon application to the board of trustees (the Board) of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest 3 years of pay of the last 5 years of service. The retirement annuity for employees retiring after September 30, 2003 is computed at the rate of 2.3% of this average for each of the first 20 years of service, plus 4.5% of the member's average total salary for each of the next 7 years, plus 3.0% of the member's average total salary for each of the next 3 years of service, plus 0.5% of the member's average total salary for each of the next 4 years of service, with fractional years of service prorated based on full months served as a contributing member. In applying the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

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

There is also a provision for a thirteenth and fourteenth pension check. The Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 100 basis points. The Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a pro-rated check, and no check will be paid to members who retired after the end of the fiscal year).

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 as mentioned previously, other new provisions include 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.

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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

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 \$51,614 and the employee's required contribution of \$25,801 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 2006 was determined as part of the October 1, 2005 actuarial valuation, using the entry-age actuarial cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.25%. 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 13.25 years with no assumption of a payroll growth rate.

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.

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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

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.

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 12.5%, 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 twenty-five 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.

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, San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security.

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 credited service. "Average compensation" is defined as the monthly average of total compensation received for the 3 consecutive years ending December 31 out of the latest 10 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)

The normal retirement benefit under the Principal Mutual 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. The following information related to the Texas Municipal Retirement System and San Antonio Water System Retirement Plan has been prepared as of December 31, 2004 and January 1, 2005, respectively.

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 Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that TMRS plans 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 plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the 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 establishment of the plan. Monetary credits for service since the plan began are a percentage (100.0%, 150.0%, and 200.0%) of the employee's accumulated contributions. In addition, SAWS may 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 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 SAWS-financed monetary credits, with interest, were used to purchase an annuity.

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

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS' Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the employees is 3.0% of salary, and SAWS' matching rate approximates 100.0% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. 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 percentage of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percentage, 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 percentage 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 (over funded) actuarial liability (asset) over the remainder of the plan's 20 amortization period.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25 year period. Currently, the unfunded actuarial liability is to be amortized over the 25 year period. The unit credit actuarial cost method is used for determining SAWS' contribution rate.

Contributions are made monthly by both the employees and SAWS. 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 for the rate and the calendar year when the rate goes into effect.

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan that serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets to Principal Life Insurance Company. SAWS' covered payroll at January 1, 2005 under this contract was \$59,476.

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 plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. An employee covered by SAWSRP may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. SAWSRP allows an employee to accrue vesting benefits as follows:

| <u>Years of Service</u> | <u>Vested Percentage</u> |
|-------------------------|--------------------------|
| Less than 5 | 0.0% |
| 5 or more | 100.0% |

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 plans 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 Life Insurance Company (PMLIC). 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.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include (a) a rate of return on the investment of present and future assets of 8.3% per year, and (b) a salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%.

SAWSRP 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 SAWSRP to the employee's assumed retirement date. 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 SAWSRP had always been in existence. Thus, as of the SAWSRP 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."

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

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

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 SAWSRP. 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, 2004, reflects an unfunded frozen initial liability of \$10,592.

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 Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

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. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS Energy. Funding levels are established through annual actuarial evaluations and recommendations of an administrative/investment committee, using both employee and employer contributions. Participating employees contribute 5.0% of their total compensation and are fully vested 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 one 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.

As calculated under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, CPS Energy's annual pension cost and net pension obligation for the fiscal year ended January 31, 2006 was \$7,162. The annual required contribution was determined as part of the January 1, 2005 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 24.4 years and is calculated using the level dollar open amortization method.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Significant actuarial assumptions used for the January 1, 2005 actuarial valuation include (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) postretirement cost-of-living increases of 1.8%. The projected salary increases include an inflation rate of 3.5%.

The Plan assets are held in a separate trust that is annually audited and for which financial statements include historical trend information. Additional information may be obtained by writing to the Employee Benefits Division of CPS ENERGY, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 353-2344.

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 Contribution (ARC) | Interest on | | | Annual Pension Cost (APC) | Contributions In relation to ARC | Increase (Decrease) in NPO | Net Pension | Net Pension | Percentage of APC Contributed |
| | | | Annual Required Contribution (ARC) | Net Pension Obligation (NPO) | Adjustment To ARC | | | | Obligation at Beginning of Year | Obligation at End of Year | |
| Fire and Police Pension Fund City of San Antonio | 2004 | \$ 48,038 | | | | \$ 48,038 | \$ (48,038) | | | 100.0% | |
| | 2005 | 49,665 | | | | 49,665 | (49,665) | | | 100.0% | |
| | 2006 | 51,614 | | | | 51,614 | (51,614) | | | 100.0% | |
| TMRS- City of San Antonio | 2004 | \$ 23,062 | | | | \$ 23,062 | \$ (23,062) | | | 100.0% | |
| | 2005 | 25,131 | | | | 25,131 | (25,131) | | | 100.0% | |
| | 2006 | 27,077 | | | | 27,077 | (27,077) | | | 100.0% | |
| CPS All Employee Plan ¹ | 2004 | \$ 7,651 | | | | \$ 7,651 | \$ (7,651) | | | 100.0% | |
| | 2005 | 8,694 | | | | 8,694 | (8,694) | | | 100.0% | |
| | 2006 | 7,162 | | | | 7,162 | (7,162) | | | 100.0% | |
| TMRS- SAWS ² | 2003 | \$ 1,905 | | | | \$ 1,905 | \$ (1,905) | | | 100.0% | |
| | 2004 | 2,013 | | | | 2,013 | (2,013) | | | 100.0% | |
| | 2005 | 2,101 | | | | 2,101 | (2,101) | | | 100.0% | |
| PMLIC- SAWS ³ | 2003 | \$ 3,324 | | | | \$ 3,324 | \$ (3,324) | | | 100.0% | |
| | 2004 | 3,486 | | | | 3,486 | (3,486) | | | 100.0% | |
| | 2005 | 3,689 | | | | 3,689 | (3,689) | | | 100.0% | |

1 Fiscal year ended January 31, 2006
 2 Plan year ended December 31, 2005
 3 Plan year ended December 31, 2005

Note 8 Pension and Retirement Plans (Continued)

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 | |
|--|--------------------------|
| Investment Return - City | 7.0% |
| Investment Return - SAWS | 7.0% |
| Inflation Rate | None |
| Projected Salary Increases | None |
| Postretirement Benefit Increases | None |
| Actuarial Cost Method | Unit Credit |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 25 Years - Open Period |
| Asset Valuation Method | Amortized Cost |

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the Required Supplementary Information section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

Note 9 Postemployment Retirement Benefits

Primary Government (City)

In addition to the pension benefits discussed in Note 8, 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 5,935 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, Pension and Retirement Plans. At September 30, 2006, there were 1,417 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 \$12,659. For the year ended September 30, 2006, total contributions were as follows:

| | |
|---------|-----------------|
| City | \$ 3,720 |
| Retiree | 2,696 |
| Total | <u>\$ 6,416</u> |

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

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.

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,393 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 1,286 eligible retirees. 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, 2006, total benefit payments for retired employees and eligible beneficiaries was \$13,412.

Contribution levels for fiscal year 2006 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, although under the agreement the City could have reduced its contribution to 8.5% of covered payroll. 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 \$20 per police officer per month, 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 | \$ 17,719 |
| Employees and Retiree Dependent Premiums | 3,437 |
| Total Contributions | <u>\$ 21,156</u> |

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 20, 2006, as of October 1, 2005. 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.

Note 9 Postemployment Retirement Benefits (Continued)**Primary Government (City) (Continued)**

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, 2006, net assets available for postemployment benefits were \$165,412, while benefits payments for the fiscal year ended September 30, 2006 were \$13,412. As noted above, contribution and benefit levels are currently established pursuant to the collective bargaining agreements. The current agreement with the Fire Association expired on September 30, 2005; however, it has an evergreen clause through September 30, 2015. With respect to the agreement with the Police Association, the current agreement expired on September 30, 2006; however, it has an evergreen clause through September 30, 2016.

Subsequent to fiscal year end, the board of trustees of the Health Care Fund, Fire Association, Police Association, and the City reviewed possible amendments to the statute governing the Health Care Fund in order to address the long-term actuarial position of the Health Care Fund. The parties have agreed to seek passage of amendments to the governing legislation, which primarily include: a) approving certain changes to the benefit plans; b) providing the board of trustees the authority to make additional changes to the health benefits plan in the future; c) maintaining the City's contribution to the Health Care Fund at 9.4% of covered payroll; and d) phase-in an increase in the employee contributions from 2.0% of covered payroll to 4.7% over a five year period as well as other administrative changes. This proposed legislative package is anticipated to be considered by the Texas Legislature during the 2007 regular session. The aforementioned changes are anticipated to significantly improve the actuarial position of the Health Care Fund as well as provide the board of trustees the ability to manage the health benefit plan with consideration for the amount of funding available.

CPS Energy

CPS Energy provides certain healthcare and life insurance benefits for retired employees. Most CPS Energy employees are eligible for these benefits upon retirement from CPS Energy. Plan assets are held as part of CPS Energy's Employee Benefit Plans, and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the employee benefit 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 healthcare 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 \$5,700 for 2006. CPS Energy reimbursed a percentage of the monthly premium to certain retirees and their spouses enrolled in Medicare Part B, which totaled \$414 for fiscal year 2006. Please note, the monthly premium is not stated in thousands.

Retired employees and covered dependents contributed \$2,500 for their healthcare and life insurance benefits in fiscal year 2006. There were 2,473 retirees and covered dependents eligible for healthcare and life insurance benefits. Please note, the number of retirees is not stated in thousands.

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, 2005 valuations are \$91,300 for healthcare and \$25,000 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be \$49,500 for health, \$6,400 for life insurance, and \$3,600 for disability benefits. CPS Energy began partial accrual and funding of projected future benefits in 1992. Funding totaled \$4,200 in 2006. For the employee benefit plan, the actuarial cost method used is the projected unit credit actuarial cost method. For the life insurance and disability plans, CPS Energy uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2005 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.0% per year 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 9.0% for 2005 decreasing to 6.0% in 2011 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, 2005, there were 488 retirees with life insurance and 465 retirees with medical coverage. Please note, the numbers of retirees are 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 insurance. Premiums for medical insurance and life insurance amounted to \$4,735 and \$92, respectively, for January 1, 2005 through December 31, 2005. Medical benefits are provided to retiree and active employees through a self-insured health plan administered by Blue Cross Blue Shield of Texas. Those and similar benefits for active employees are provided through insurance companies.

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

CPS Energy is one of three participants in the STP, which consists of two units nominally rated to produce 1,281.25 megawatts each. 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. As noted in Note 4, Capital Assets, the other participants in STP are Texas Genco and the City of Austin. Increased by the additional 12.0% interest acquired in fiscal year 2006, CPS Energy's 40.0% ownership in STP represented 1,025 megawatts of total plant capacity. On February 2, 2006, NRG Energy, Inc. acquired Texas Genco. STP is maintained and operated by the STP Nuclear Operating Company (a nonprofit Texas corporation) and is financed and controlled by the owners - CPS Energy, Texas Genco, and the City of Austin.

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%.

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, 2006, 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 in STP. 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 Nuclear Regulatory Commission (NRC) in accordance with the financial protection requirements of the Price-Anderson Act.

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

Nuclear Insurance (Continued)

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

The owners of STP currently maintain \$2,800,000 of nuclear property insurance, which is above the legally required amount of \$1,100,000, but is less than the total amount available for such losses. The \$2,800,000 of nuclear property insurance consists of \$500,000 in primary property damage insurance and \$2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. 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 with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS Energy 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 showed that CPS Energy's share of decommissioning costs are 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 are now 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 \$6,900 in fiscal year 2005, which included the partial year effect of the updated study. Reflecting a full year's impact of the most recent study, CPS Energy's minimum annual contribution requirement was \$5,000 in fiscal year 2006.

In 1991, CPS Energy started accumulating the decommission funds for the 28.0% portion in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. As of December 31, 2005 and 2004, CPS Energy had accumulated approximately \$231,600 and \$222,400, respectively, 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 amounts of \$76,700 at December 31, 2005 and \$77,300 at December 31, 2004.

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 AEP. This is referred to as the 12.0% Decommissioning Trust, and its assets and 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.

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

Nuclear Decommissioning (Continued)

Subject to Public Utility Commission of Texas (PUCT) approval, credits or deficiencies in the funding of this trust will be received from or distributed to AEP customers. As of December 31, 2005, that Decommissioning Trust had accumulated approximately \$70,100 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that trust are approximately \$170,300 in 2004 dollars. 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 \$32,900 at December 31, 2005.

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.

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 is 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, 2006. Grants awarded by federal, state, and other governmental agencies but not yet earned nor received in cash as of September 30, 2006 were \$12,955.

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2007. The estimated cost of these improvements is \$470,596, of which \$151,360 is related to the Airport System. Approximately \$30,722 of the these projects will be funded by federal grants, of which \$22,661 are earmarked for the Airport System.

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 Office of the City Attorney estimates the probable liability for these suits, including those mentioned below, will approximate \$8,995, which is included as a component of the reserve for claims liability in the amount of \$19,213. 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.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance 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 in October 2006.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act (FLSA) lawsuit with originally 175 named plaintiffs who claim that they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 175 plaintiffs. The Plaintiffs have a motion pending for class certification that has increased the size of the Plaintiff class to 330, but has the potential to include all officers of the San Antonio Police Department, of which there are more than 2,000. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount well over \$1,000.

McClure and Maximum Entertainment L.L.C vs. City of San Antonio et al. This is a case in which the plaintiff was granted a permit to stage a three-day outdoor concert. The plaintiff states the permit allowed the bands to play at unrestricted noise levels. City officers shut down the concert prior to the second day’s performance. The potential liability for this case, if lost, could exceed \$1,000.

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.

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, 2006 was \$19,289. As of September 30, 2006, the leases provide for the following future minimum rentals:

| | | Leases Receivable | | | |
|----------------------------------|------------------------------|-------------------|------------------|---------------|------------------|
| | | Governmental | | | |
| | | Activities | Aviation | Parking | Total |
| Fiscal year ending September 30: | | | | | |
| | 2007 | \$ 1,627 | \$ 3,807 | \$ 73 | \$ 5,507 |
| | 2008 | 1,248 | 3,453 | 51 | 4,752 |
| | 2009 | 859 | 2,470 | 36 | 3,365 |
| | 2010 | 760 | 2,402 | 36 | 3,198 |
| | 2011 | 697 | 1,958 | 36 | 2,691 |
| | 2012-2016 | 2,899 | 8,440 | 57 | 11,396 |
| | 2017-2021 | 2,125 | 3,761 | | 5,886 |
| | 2022-2026 | 750 | 1,329 | | 2,079 |
| | 2027-2031 | 750 | 92 | | 842 |
| | 2032-2036 | 575 | 27 | | 602 |
| | 2037-2041 | 500 | | | 500 |
| | 2042-2046 | 67 | | | 67 |
| | Future Minimum Lease Rentals | <u>\$ 12,857</u> | <u>\$ 27,739</u> | <u>\$ 289</u> | <u>\$ 40,885</u> |

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 \$3,800. 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 \$3,800 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, 2006 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of \$1,004. This represents a decrease of \$26 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

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 permittee 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.

As part of the conveyance, the electric and gas utilities were transferred to CPS Energy, the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS Energy have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include \$3,400 from the Air Force and \$6,300 from BDA and CPS Energy each, for a total of \$16,000.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

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

With respect to BDA's obligation of \$6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. If necessary, the City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS Energy derived from Brooks City-Base. The City, as the owner of CPS Energy, receives 14.0% of CPS Energy's gross revenues, and this amount represents additional resources available to the City as a result of its increased payment from CPS Energy derived at Brooks. Over the 20-year period, the City's annual payments will not exceed \$3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of \$6,300 by the end of the 20-year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, over its management of STP during the construction and early operating periods. The JOA was an arrangement to jointly dispatch CPS Energy's and Texas Genco's generating plants - other than STP - to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS Energy received 90.0% of the savings realized from the jointly operated systems in monthly cash payments. As of June 2002, when Texas Genco met the JOA \$200,000 cumulative savings obligation, monthly cash payments to CPS Energy were reduced to 50.0% of the savings realized. As of January 24, 2006, CPS Energy's total cumulative payments from savings realized was \$310,400. Due to changes in market conditions and the ERCOT market structure, Texas Genco terminated the JOA as of January 24, 2006. On January 25, 2006, CPS Energy began directly representing its generation and load in the Texas energy market place.

Litigation

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

Other

Purchase and construction commitments amounted to approximately \$1,100,000 at January 31, 2006. 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 2006 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling \$1,000,000. This amount includes provisions for wind power through December 2026, landfill power through December 2020, and raw uranium associated with STP fabrications and conversion services needed for refueling through December 2010.

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. CPS Energy's cost for calendar year 2005 was approximately \$15,100. The estimated cost for calendar year 2006 is approximately \$21,900.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and litigation that 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.

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 \$337 on a take or pay basis. Under the terms of this agreement, SAWS is required to make total payments under this contract of \$4,700 between 2006 and 2020. Additionally, SAWS has agreed to make payments quarterly in arrears for any residential customers within a defined geographical area that begin taking water payments associated with this provision of the agreement. Management estimates of this potential contingent liability are less than \$5,000.

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately \$158,940 as of December 31, 2005. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

As of December 31, 2005, SAWS has recorded a contingent liability of approximately \$3,900 related to contractual and/or legal expenditures that are expected to be incurred. Any additional liability that may arise from these actions is indeterminable, but management believes that the amount recorded is a reasonable estimate.

Note 12 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2006, 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 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 benefit 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 Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

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, 2006, 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.

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 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.

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Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability (Continued)

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs Funds for the year ended September 30, 2006:

| Fund | October 1, | Estimates | Adjustments | Payments | September 30, ¹ |
|--|------------|------------|-------------|-------------|----------------------------|
| <u>Insurance Reserve</u> | | | | | |
| Fiscal Year 2005 | \$ 17,271 | \$ 1,928 | \$ 4,638 | \$ (4,638) | \$ 19,199 |
| Fiscal Year 2006 | 19,199 | 14 | 5,413 | (5,413) | 19,213 |
| <u>Employee Benefits</u> | | | | | |
| Fiscal Year 2005 | \$ 8,548 | \$ - | \$ 66,489 | \$ (66,489) | \$ 8,548 |
| Fiscal Year 2006 | 8,548 | 2,038 | 75,416 | (75,416) | 10,586 |
| <u>Workers' Compensation¹</u> | | | | | |
| Fiscal Year 2005 | \$ 23,205 | \$ (1,326) | \$ 10,297 | \$ (10,297) | \$ 21,879 |
| Fiscal Year 2006 | 21,879 | 2,125 | 8,261 | (8,261) | 24,004 |

¹The Workers' Compensation Liability Balance of \$24,004 is comprised of \$21,678 recorded in the Workers' Compensation Fund, and the remaining liability of \$2,326 is recorded in proprietary funds.

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to those related to, torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides \$4,000,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is \$5,000 for general property and turbine generators/transformers. The liability insurance program includes:

- \$100,000 of excess general liability coverage over a retention amount of \$2,000;
- \$35,000 of excess workers' compensation 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.

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Note 12 Risk Financing (Continued)**CPS Energy (Continued)**

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was last performed in the fourth quarter of FY 2006. Notable changes to certain insurance reserves included in the following table are related to establishing an employment practices liability reserve totaling \$3,800 and discontinuing the property insurance reserve, which represented a \$3,200 reduction to the total property reserve.

The remaining balance under the property reserve column at January 31, 2006 is related to estimated obligations for the clean up, closure, and postclosure care requirements of the Company'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.

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 oversight committee, which includes three specific members, the CPS Energy CEO and General Manager, the CFO and Treasurer, and the Board Audit Committee Chair. The employee benefit plans have separate calendar-year financial statements that are available upon request by contacting Compensation and Employee Benefits at CPS Energy.

| City Public Service | | | | |
|--|--------------------------|-----------------------|--------------------|--------------------------|
| Schedule of Changes in Claims Liability | | | | |
| Fund | Liability February 1, | Claims Adjustments | Claims Payments | Liability January 31, |
| <u>Property Insurance</u> | | | | |
| Fiscal Year 2005 | \$ 5,835 | \$ 1,010 | \$ - | \$ 6,845 |
| Fiscal Year 2006 | 6,845 | (3,207) | | 3,638 |
| <u>Employee and Public Liability Claims</u> | | | | |
| Fiscal Year 2005 | \$ 7,237 | \$ (871) | \$ (331) | \$ 6,035 |
| Fiscal Year 2006 | 6,035 | 3,449 | (341) | 9,143 |
| <u>Employee Health and Welfare</u> | | | | |
| Fiscal Year 2005 | \$ 4,696 | \$ 32,888 | \$ (32,325) | \$ 5,259 |
| Fiscal Year 2006 | 5,259 | 38,079 | (38,741) | 4,597 |

Hedging - The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy.

On December 19, 2005, 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. Currently, these hedge instrument transactions are used to minimize the risk of market energy-price volatility as it relates to the underlying transactions that relate to the physical purchase of natural gas. The primary goal of the Energy Price Risk Management Policy, which is overseen by the hedging strategy committee, is to mitigate the potential for loss or reduce the uncertainty in expenses, pricing, and revenue as a result of unforeseen market changes that pertain to fuel expenses and revenues.

The hedge instruments are reported at cost on the balance sheets. Gains and losses related to the hedge instrument transactions are netted to fuel expenses in the period realized. For fiscal years 2006 and 2005, the commodity options and/or hedge instruments offset one another to achieve unrealized gains of approximately \$258 and \$496, respectively.

Note 12 Risk Financing (Continued)**CPS Energy (Continued)**

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, 2006 and 2005:

| Fuel Derivative Transactions as of January 31, 2006 | | |
|---|---------------------|------------------|
| Type of Transaction | Duration | Volumes in MMBTU |
| Long Call | Mar 2006 - Mar 2007 | 16,050,000 |
| Short Call | Mar 2006 - Mar 2007 | 16,580,000 |
| Long Put | Mar 2006 - Oct 2006 | 1,080,000 |
| Short Put | Mar 2006 - Mar 2007 | 16,050,000 |
| Long NG Futures | Mar 2006 - Oct 2006 | 530,000 |

| Fuel Derivative Transactions as of January 31, 2005 | | |
|---|---------------------|------------------|
| Type of Transaction | Duration | Volumes in MMBTU |
| Long Call | Mar 2005 | 420,000 |
| Short Call | Mar 2005 - Mar 2006 | 4,110,000 |
| Long Put | Mar 2005 - Mar 2006 | 4,110,000 |
| Short Put | Mar 2005 | 420,000 |
| Long NG Futures | Mar 2005 - Mar 2006 | 4,800,000 |
| Short NG Futures | Mar 2005 - Dec 2005 | 1,230,000 |
| Short Basis Swaps | Feb 2005 - Dec 2005 | 1,510,000 |

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, 2006, the total cost of the outstanding hedge instruments was \$28, with a fair value of \$286. As of January 31, 2005, total cost for outstanding hedge instruments was \$59, with a fair value of \$556.

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 will not 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 are governed by the Commodity Futures Trade Commission.

Note 12 Risk Financing (Continued)

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first \$500 of each workers' compensation, general liability, automobile liability, public official's liability, and \$250 for pollution legal liability claim whereby any claim exceeding the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2005, there were no reductions in insurance coverage from the previous year, and there were no claims that exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS has recorded a liability in the amount of \$2,552 as of December 31, 2005, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

| San Antonio Water System | | | | |
|---|--------------------------|------------------------|-----------------|--------------------|
| Schedule of Changes in Claims Liability | | | | |
| | Balance at | | | Balance at |
| Year Ended | Beginning of Fiscal Year | Claims and Adjustments | Claims Payments | End of Fiscal Year |
| Dec. 31, 2004 | \$ 2,317 | \$ 1,675 | \$ (1,515) | \$ 2,477 |
| Dec. 31, 2005 | \$ 2,477 | \$ 1,542 | \$ (1,467) | \$ 2,552 |

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Note 13 Interfund Transfers

The following is a summary of interfund transfers for the City for the year ended September 30, 2006:

| Summary Table of Interfund Transfers Year Ended September 30, 2006 | | |
|---|-------------------------------|-----------------------------|
| | Transfers From Other Funds | Transfers To Other Funds |
| General Fund: | | |
| Airport System | \$ 35 | \$ - |
| Categorical Grant-in-Aid | 317 | 5,423 |
| Parking Facilities | 761 | 452 |
| Internal Service Funds | | 3,650 |
| Nonmajor Governmental Funds | 9,006 | 78,869 |
| Nonmajor Enterprise Fund | 1,348 | 1,583 |
| Total General Fund | 11,467 | 89,977 |
| Debt Service Funds: | | |
| Parking Facilities | 516 | |
| Nonmajor Governmental Funds | 20,048 | |
| Total Debt Service Funds | 20,564 | |
| Categorical Grant-in Aid: | | |
| General Fund | 5,423 | 317 |
| Internal Service Funds | | 154 |
| Nonmajor Governmental Funds | 1,343 | 25,157 |
| Total Categorical Grant-in-Aid | 6,766 | 25,628 |
| Airport System Fund: | | |
| General Fund | | 35 |
| Internal Service Funds | | 156 |
| Total Airport System Fund | | 191 |
| Parking System Fund: | | |
| General Fund | 452 | 761 |
| Debt Service | | 516 |
| Internal Service Funds | | 40 |
| Nonmajor Governmental Funds | | 100 |
| Total Parking System Fund | 452 | 1,417 |
| Internal Service Funds: | | |
| General Fund | 3,650 | |
| Categorical Grant-in-Aid | 154 | |
| Airport System | 156 | |
| Parking Facilities | 40 | |
| Internal Service Funds | 2,599 | 2,599 |
| Nonmajor Governmental Funds | 257 | 135 |
| Nonmajor Enterprise Fund | 218 | 70 |
| Total Internal Service Funds | 7,074 | 2,804 |
| Nonmajor Governmental Funds: | | |
| General Fund | 78,869 | 9,006 |
| Debt Service | | 20,048 |
| Categorical Grant-in-Aid | 25,157 | 1,343 |
| Parking Facilities | 100 | |
| Internal Service Funds | 135 | 257 |
| Nonmajor Governmental Funds | 84,983 | 84,983 |
| Nonmajor Enterprise Fund | | 48 |
| Total Nonmajor Governmental Funds | 189,244 | 115,685 |
| Nonmajor Enterprise Fund: | | |
| General Fund | 1,583 | 1,348 |
| Internal Service Funds | 70 | 218 |
| Nonmajor Governmental Funds | 48 | |
| Total Nonmajor Enterprise Funds | 1,701 | 1,566 |
| Total | \$ 237,268 | \$ 237,268 |

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 fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and 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 \$8,750 is as follows:

| | |
|--|-----------|
| Revenues previously reported as unearned in the fund financial statements | \$ 17,932 |
| 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 | (9,747) |
| | <hr/> |
| Revenues collected after year end, but not available soon enough to pay for the current period's expenditures and, therefore, are not recognized in governmental funds | \$ 8,750 |
| | <hr/> |

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds." The detail for the decrease related to capital leases is as follows:

| | |
|---|-----------|
| Total capital leases reported on the Government-Wide Statement of Net Assets | \$ 10,267 |
| Less: Short-term available portion reported in fund financial statements | (831) |
| | <hr/> |
| Net adjustment to decrease fund balance--total governmental funds to arrive at new assets--governmental activities for capital leases | \$ 9,436 |
| | <hr/> |

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**Note 14 Reconciliation of Government-Wide and Fund Financial Statements
(Continued)**

Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities.

The details of the increase of bond premiums and deferred charges is as follows:

| | |
|--|-------------------|
| Amortization of bond premiums on long-term debt previously expensed in the fund financial statements | \$ 1,199 |
| Amortization of bond issues costs on long-term debt previously expensed in the fund financial statements | 1,121 |
| Less: Premiums/bond issue costs on bonds and certificates not previously recorded in the fund financial statements | <u>(5,377)</u> |
| Total amortization of bond premiums and deferred charges (net) | <u>\$ (3,057)</u> |

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the \$2,597 are as follows:

| | |
|---|-----------------|
| Arbitrage Rebate Expense | \$ 1,288 |
| Compensated Absences | (2,348) |
| Interest Expense | (9,321) |
| Principal Paid on Leases | <u>12,978</u> |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities. | <u>\$ 2,597</u> |

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Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2006, deficit fund balances are reported in the Categorical Grant-in-Aid and Community Development Program in the amounts of \$10,829 and \$884, respectively. In fiscal year 2006, grant receivables within the grant funds were researched and analyzed by the owning City grant departments to determine validity of receivables and if accounting adjustments were necessary. The City identified the \$11,713 as grant programs that were not sufficiently funded. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The City will address funding these deficits through the City's future budget processes.

The Golf Course Fund had a deficit fund balance of \$877 as of September 30, 2006. 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.

Internal Service Funds

As of September 30, 2006, a deficit of \$11,823 in net assets is reported in the Employee Health Benefits Program. This deficit decreased by \$8,867 from the prior fiscal year. To address specific issues related to the increasing costs of health benefits, the City has sought the services of an outside consultant in 2006 to perform a comprehensive review of the Employee Benefits Program. Establishing healthcare medical management programs focused on providing managed care for employees having chronic, high-risk ailments involving high costs, such as back pain, high-risk maternity, heart disease, and depression. These programs will be carefully studied as a means of providing long-term solutions to address rising healthcare costs and addressing fund balance deficits. Projections indicate that the fund will have a positive fund balance in fiscal year 2008.

Within the Internal Service Funds, the Workers' Compensation Fund also reported a deficit in net assets of \$1,264, at September 30, 2006, which was reduced by \$2,981 from the prior fiscal year. The City will fund the deficit through assessments charged to various City funds in future years.

Note 16 Other Disclosures

Donor Restricted Endowment

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

The San Jose Burial Park Fund generated \$93 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 \$14 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.

Note 16 Other Disclosures (Continued)

Donor-Restricted Endowment (Continued)

The San Antonio Housing Trust Fund generated \$355 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, construed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated \$13 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 Subsequent Events

Debt Transactions

On September 21, 2006, the City issued \$72,620 in Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006. The Bonds were issued to refund \$68,785 in Hotel Occupancy Tax Revenue Bonds for interest costs savings and the proceeds were delivered on October 18, 2006. This refunding transaction produced total savings of \$10,440 with a present value savings of \$6,905, or 10.0% of the refunded obligations. The Bonds have maturities from 2007 to 2026, with interest rates ranging from 4.0% to 4.5%.

On November 9, 2006, the City issued \$170,785 in General Improvement and Refunding Bonds, Series 2006. Proceeds of the bonds were utilized to finance general improvements of the City and refund certain general obligation and certificates of obligation for interest cost savings. The refunding transaction generated gross savings of \$5,500 with present value savings of \$4,100, or 4.2% of the refunded obligations. Additionally, the City issued \$73,155 in Combination Tax and Revenue Certificates of Obligation, Series 2006, to fund various capital projects. Proceeds of the 2006 bonds and certificates were delivered on December 6, 2006. The 2006 bonds and certificates have maturities from 2007 to 2026, with interest rates ranging from 3.5% to 5.0%.

On November 16, 2006, the City issued \$17,850 in Airport System Revenue Refunding Bonds, Series 2006. The Bonds were issued to refund certain Airport System Improvement Revenue Bonds for interest cost savings and the proceeds were delivered on December 13, 2006. This transaction produced total gross savings of \$1,100, with a present value savings of \$915, or 5.2% of the refunded obligations. The bonds have maturities ranging from 2007 to 2014, with an interest rate of 5.0%.

On May 17, 2007, the City approved the issuance of \$60,000 in Tax Notes, Series 2007. The proceeds of the Notes will be utilized to fund capital projects in the City's Adopted 2007 Capital Budget, a proposed Homeless Campus, the acquisition and development of a Property Room for the San Antonio Police Department, and projects approved by the voters in a bond election held on May 12, 2007. These Tax Notes are being utilized as an interim financing mechanism in anticipation of the next scheduled sale of General Obligation Bonds and Certificates of Obligation currently scheduled for November 2007. 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 are retired in the year 2010 and bear an interest rate of approximately 3.9%.

On May 17, 2007, the City approved the issuance of \$5,500 in Hotel Occupancy Tax Surplus Revenue Notes, Series 2007. The proceeds of the Notes will be utilized to fund renovations and improvements to the Alamodome, which are necessary for hosting the 2008 NCAA Men's Final Four. The Notes are being utilized as an interim financing mechanism in anticipation of the projected reimbursement for these capital expenditures from the State of Texas via Senate Bill 150. This Bill provides for the reimbursement of eligible expenditures from the State's portion of its sales tax collected in conjunction with major events such as the NCAA Final Four. The Notes are payable from the City's Hotel Occupancy Tax Revenues. The Notes are retired in the year 2010 and bear an interest rate of approximately 4.0%.

Note 17 Subsequent Events (Continued)

Bond Election

On May 12, 2007, the City held an election on the proposed issuance of general obligation bonds in an aggregate amount of \$550,000. All propositions for the bond program were approved by the voters. The bonds are projected to be issued in installments over a 5-year period and will provide funding for street and sidewalk improvements, drainage improvements, parks, recreation, open space, athletic facility improvements, library improvements, and public facilities improvements.

Fire Collective Bargaining Agreement

On May 31, 2007 the City approved a new collective bargaining agreement with the International Association of Fire Fighters Local 624 with a term through September 30, 2009. The projected cost of the collective bargaining agreement is \$44,400. The previous agreement approved on May 23, 2003 had a term of June 3, 2002 through September 30, 2005 with an evergreen clause effective through September 30, 2015.

Police Collective Bargaining Agreement

On May 31, 2007, the City approved a new collective bargaining agreement with the San Antonio Police Officers' Association (SAPOA) with a term through September 30, 2009. The projected cost of the collective bargaining agreement is \$43,500. The previous agreement had a term through September 30, 2006 with an evergreen clause effective through September 30, 2016.

San Antonio Development Agency

On October 5, 2006, the City defunded the San Antonio Development Agency (SADA), a nonmajor discretely presented component unit of the City and provided for the transition of certain functions and programs of SADA to the City. Subsequently, on October 19, 2006, the City reprogrammed Community Development Block Grant funds previously allocated to SADA to certain City departments to continue ongoing land assembly and redevelopment efforts. The complete transition of SADA's activities to the City is ongoing and is anticipated to be completed prior to end of fiscal year 2007.

San Antonio Westside Development

The City of San Antonio 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 area of Westside of San Antonio. WDC will seek to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, the WDC will function 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 will be the policy-setting oversight authority for the WDC, comprising of 17 members.

On June 8, 2006, the City Council approved the formation of the Westside Development Corporation. However the articles of the incorporation, bylaws, and board of directors were not approved until November 11, 2006. As this action occurred subsequent to fiscal year end the City has elected to not present Westside Development Corporation as a blended component unit in 2006.

City of San Antonio, Texas



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

City of San Antonio, Texas



Budgetary Comparison Schedule
General Fund

Budgetary Comparison Schedule
General Fund
 Year Ended September 30, 2006

| | 2006 | | | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|--------------------|--------------------|--------------------|---|
| | BUDGETED AMOUNTS | | ACTUAL | |
| | ORIGINAL | FINAL | | |
| Resources (Inflows): | | | | |
| Taxes | \$ 377,229,886 | \$ 377,229,886 | \$ 399,359,902 | \$ 22,130,016 |
| Licenses and Permits | 20,366,361 | 20,366,361 | 19,764,737 | (601,624) |
| Intergovernmental | 2,988,263 | 2,988,263 | 3,445,582 | 457,319 |
| Revenues from Utilities | 204,746,045 | 204,746,045 | 256,367,822 | 51,621,777 |
| Charges for Services | 33,701,173 | 33,701,173 | 35,276,831 | 1,575,658 |
| Fines and Forfeits | 11,218,759 | 11,218,759 | 10,947,472 | (271,287) |
| Miscellaneous | 12,203,386 | 12,203,386 | 13,830,931 | 1,627,545 |
| Transfers from Other Funds | 11,841,903 | 11,410,796 | 11,466,466 | 55,670 |
| Amounts Available for Appropriation | <u>674,295,776</u> | <u>673,864,669</u> | <u>750,459,743</u> | <u>76,595,074</u> |
| Charges to Appropriations (Outflows): | | | | |
| General Government | 96,556,331 | 95,472,763 | 71,139,682 | 24,333,081 |
| Public Safety | 420,983,797 | 431,504,384 | 429,051,592 | 2,452,792 |
| Public Works | 10,970,760 | 10,975,794 | 10,769,261 | 206,533 |
| Health Services | 12,125,543 | 12,650,928 | 12,412,664 | 238,264 |
| Sanitation | 2,866,779 | 2,916,234 | 2,864,299 | 51,935 |
| Welfare | 23,096,900 | 25,912,936 | 23,504,261 | 2,408,675 |
| Culture and Recreation | 71,251,183 | 72,353,138 | 71,938,565 | 414,573 |
| Economic Development and Opportunity | 4,177,161 | 4,461,016 | 4,067,281 | 393,735 |
| Transfers to Other Funds | 87,142,029 | 90,413,906 | 90,280,712 | 133,194 |
| Total Charges to Appropriations | <u>729,170,483</u> | <u>746,661,099</u> | <u>716,028,317</u> | <u>30,632,782</u> |
| Excess (Deficiency) of Resources Over (Under) | | | | |
| Charges to Appropriations | (54,874,707) | (72,796,430) | 34,431,426 | 107,227,856 |
| Fund Balance Allocation | 54,874,707 | 72,796,430 | (34,431,426) | (107,227,856) |
| Excess (Deficiency) of Resources Over (Under) | | | | |
| Charges to Appropriations | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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 | \$ 750,459,743 |
| Differences - budget to GAAP: | |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (11,466,466) |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$ 738,993,277</u> |

Uses/Outflows of Resources:

| | |
|---|-----------------------|
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 716,028,317 |
| Differences - budget to GAAP: | |
| Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes | (8,326,766) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (90,280,712) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$ 617,420,839</u> |

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 and activity 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.

(unaudited - see accompanying auditors' report)

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



City of San Antonio, Texas



Pension Schedules

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



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 |
|--------------------------|---------------------------|---|---|--------------|-----------------|---|
| 10-01-05 | \$ 1,676,075 | \$ 1,910,789 | \$ 234,714 | 88% | \$ 207,145 | 113% |
| 10-01-04 | 1,540,286 | 1,838,371 | 298,085 | 84% | 204,516 | 146% |
| 10-01-03 | 1,429,378 | 1,718,262 | 288,884 | 83% | 191,647 | 151% |

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 |
|--------------------------|---------------------------|---|---|--------------|-----------------|---|
| 12-31-05 | \$ 475,325 | \$ 642,202 | \$ 166,877 | 74% | \$ 209,176 | 80% |
| 12-31-04 | 464,345 | 621,034 | 156,689 | 75% | 204,088 | 77% |
| 12-31-03 | 451,071 | 602,927 | 151,856 | 75% | 192,896 | 79% |

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 |
|--------------------------|---------------------------|---|---|--------------|-----------------|---|
| 01-01-05 | \$ 902,100 | \$ 837,600 | \$ (64,500) | 108% | \$ 198,400 | (33)% |
| 01-01-04 | 839,800 | 795,100 | (44,700) | 106% | 189,900 | (24)% |
| 01-01-03 | 783,000 | 748,700 | (34,300) | 105% | 186,700 | (18)% |

(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 | (1) \$ | 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 |
|--------------------------|--------|---------------------------|---|---|--------------|-----------------|---|
| 12-31-05 | \$ - | - | - | \$ - | - | \$ - | - |
| 12-31-04 | 52,985 | 52,985 | 66,466 | 13,481 | 80% | 60,588 | 22% |
| 12-31-03 | 48,964 | 48,964 | 61,425 | 12,461 | 80% | 57,596 | 22% |
| 12-31-02 | 46,492 | 46,492 | 57,635 | 11,143 | 81% | 51,889 | 21% |

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 |
|--------------------------|--------|---------------------------|---|---|--------------|-----------------|---|
| 01-01-05 | \$ - | 52,412 | 63,064 | \$ - | 83% | 59,476 | 18% |
| 01-01-04 | 47,249 | 47,249 | 57,241 | 9,992 | 83% | 56,932 | 18% |
| 01-01-03 | 42,827 | 42,827 | 52,602 | 9,775 | 81% | 55,364 | 18% |

NOTE: (1) Balances for 12/31/05 not available

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

**Financial and Compliance Report on
Federal Grants "Single Audit Report"**
Year Ended September 30, 2006



City of San Antonio, Texas



Supplemental Information

City of San Antonio, Texas



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

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures of Federal Awards

September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|---|---------------------|------------------|-------------|----------------------------|
| U.S. Department of Agriculture | | | | |
| Pass Through - State Department of Health | | | | |
| Special Supplemental Nutrition Food Program for Women, Infants and Children: | | | | |
| WIC 2001-2002 | 10.557 | 7460020708-02-16 | 26-016051 | \$ 1,117 |
| WIC 2003-2004 | 10.557 | 7460020708-04-10 | 26-016065 | (500,449) |
| WIC 2004-2005 | 10.557 | 7460020708-2005 | 26-016101 | 846,452 |
| WIC 2005-2006 | 10.557 | 7460020708-2006 | 26-016108 | 4,704,408 |
| WIC 2006-2007 | 10.557 | 7460020708-2007 | 26-016110 | <u>362,695</u> |
| Total Special Supplemental Nutrition Food Program for Women, Infants and Children | | | | <u>\$ 5,414,223</u> |
| Pass Through - Texas Department of Human Services | | | | |
| Summer Food Service Program for Children: | | | | |
| Summer Food Program 2006 | 10.559 | 75J8005 | 26-020002 | <u>\$ 544,821</u> |
| Pass Through - Food and Nutrition Services | | | | |
| State Administrative Matching Grants for Food Stamp Program: | | | | |
| Food Stamp Outreach Program | 10.561 | TBA | 26-017097 | <u>\$ (6,965)</u> |
| Pass Through - Texas Forest Service | | | | |
| Cooperative Forestry Assistance | 10.664 | TBA | 26-017097 | <u>\$ 7,275</u> |
| Total U.S. Department of Agriculture | | | | <u><u>\$ 5,959,354</u></u> |
| U.S. Department of Defense | | | | |
| Direct Programs | | | | |
| Procurement Technical Assistance for Business Firms: | | | | |
| Procurement Outreach Program 2002 | 12.002 | DLA8AT02020012 | 26-032011 | \$ 20 |
| PTAC 2005-2006 | 12.002 | 06C4TX14000000 | 26-032019 | <u>150,541</u> |
| Total Defense Logistics Agency | | | | <u>\$ 150,561</u> |
| Pass Through - The U.S. Air Force | | | | |
| Community Economic Adjustment: * | | | | |
| PCEH Fruit and Nut Phase Project 03201 | 12.600 | TBA | 26-032013 | \$ (2,009) |
| PCEH Operations Project 032015 | 12.600 | 40000373 | 26-032015 | 3,609 |
| Public Center Environmental Health 2004-2011 | 12.600 | 40000373 | 26-032017 | <u>335,095</u> |
| Total Office of Economic Adjustment | | | | <u>\$ 336,695</u> |
| Total U.S. Department of Defense | | | | <u><u>\$ 487,256</u></u> |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures of Federal Awards

September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|---|---------------------------|-----------------|----------------|-------------------------|
| 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 | \$ 427 |
| Community Development Block Grants/ Entitlement Grants: * | | | | |
| Community Development Program - Multi | | B93MC480508 | 28-099000 | \$ 3,039,085 |
| Community Development Program - 19th Year | 14.218 | B93MC480508 | 28-019000 | 265,920 |
| Community Development Program - 20th Year | 14.218 | B94MC480508 | 28-020000 | (7,105) |
| Community Development Program - 21st Year | 14.218 | B95MC480508 | 28-021000 | (11,391) |
| Community Development Program - 22nd Year | 14.218 | B96MC480508 | 28-022000 | (226,414) |
| Community Development Program - 23rd Year | 14.218 | B97MC480508 | 28-023000 | 32,472 |
| Community Development Program - 24th Year | 14.218 | B98MC480508 | 28-024000 | 114,031 |
| Community Development Program - 25th Year | 14.218 | B99MC480508 | 28-025000 | (1,480,401) |
| Community Development Program - 26th Year | 14.218 | B00MC480508 | 28-026000 | 316,861 |
| Community Development Program - 27th Year | 14.218 | B01MC480508 | 28-027000 | 391,319 |
| Community Development Program - 28th Year | 14.218 | B02MC480508 | 28-028000 | (199,383) |
| Community Development Program - 29th Year | 14.218 | B03MC480508 | 28-029000 | 676,961 |
| Community Development Program - 30th Year | 14.218 | B04MC480508 | 28-030000 | 8,511,216 |
| Community Development Program - 31st Year | 14.218 | B05MC480508 | 28-031000 | 7,146,132 |
| Community Development Program - 32nd Year | 14.218 | B06MC480508 | 28-032000 | 552 |
| Total Community Development Block Grants/ Entitlement Grants | | | | \$ 18,569,855 |
| Emergency Shelter Grants Program: | | | | |
| ESG 02-04 CAD Administration Project 0541 | 14.231 | S02MC480508 | 26-054108 | \$ (40,501) |
| ESG 03-05 CAD Administration Project 0541 | 14.231 | S03MC480508 | 26-054110 | (30,933) |
| ESG 04-06 CAD Dwyer SRO-ESSN SVCS | 14.231 | S04MC480508 | 26-054117 | 218,495 |
| ESG 05-07 CAD Administration | 14.231 | S05MC480508 | 26-054123 | 446,325 |
| Total Emergency Shelter Grants Program | | | | \$ 593,386 |
| Supportive Housing Program: * | | | | |
| SHP 1998 - Administration | 14.235 | TX59B800 | 26-054088 | \$ (50,534) |
| SHP 1999 - Supportive Housing Program | 14.235 | TX59B900 | 26-054097 | (68,881) |
| SHP 2000 - Seamless Child Care - Homeless | 14.235 | TX59B000 | 26-054103 | (148,205) |
| SHP 2001 - Administration | 14.235 | TX59B100 | 26-054105 | 241,479 |
| SHP 2002 - Administration | 14.235 | TX59B200 | 26-054112 | 276,068 |
| SHP 2003 - Administration | 14.235 | TX59B300 | 26-054115 | 1,479,532 |
| SHP 2004 - Seton Home | 14.235 | TX59B400 | 26-054122 | 2,114,520 |
| SHP THP Leasing 2005 | 14.235 | TX59B500 006 | 26-054127 | 409,820 |
| Total Supportive Housing Program | | | | \$ 4,253,799 |
| Subtotal U.S. Department of Housing and Urban Development | | | | \$ 23,417,467 |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

September 30, 2006

| 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) | | | | |
| HOME Investment Partnerships Program: * | | | | |
| HOME Program Grant - Multi | 14.239 | M01MC480508 | 25-099000 | \$ 693,106 |
| HOME Program Grant - 3rd Year | 14.239 | M94MC480508 | 25-002000 | (11,530) |
| HOME Program Grant - 4th Year | 14.239 | M95MC480508 | 25-004000 | (7,276) |
| HOME Program Grant - 5th Year | 14.239 | M96MC480508 | 25-005000 | (60,113) |
| HOME Program Grant - 6th Year | 14.239 | M97MC480508 | 25-006000 | 44,843 |
| HOME Program Grant - 7th Year | 14.239 | M98MC480508 | 25-007000 | 36,237 |
| HOME Program Grant - 8th Year | 14.239 | M99MC480508 | 25-008000 | 96,324 |
| HOME Program Grant - 9th Year | 14.239 | M00MC480508 | 25-009000 | 139,749 |
| HOME Program Grant - 10th Year | 14.239 | M01MC480508 | 25-010000 | 938,751 |
| HOME Program Grant - 11th Year | 14.239 | M02MC480508 | 25-011000 | 853,811 |
| HOME Program Grant - 12th Year | 14.239 | M03MC480508 | 25-012000 | 873,799 |
| HOME Program Grant - 13th Year | 14.239 | M04MC480508 | 25-013000 | 3,284,833 |
| HOME Program Grant - 14th Year | 14.239 | M05MC480508 | 25-014000 | 3,242,143 |
| Total HOME Investment Partnerships Program | | | | <u>\$ 10,124,677</u> |
| Housing Opportunities for Persons with AIDS: | | | | |
| CAD-HOPWA Resource Identification | 14.241 | TX59H99F005 | 26-054091 | \$ (92) |
| HOPWA 2004-2005 | 14.241 | TXH04F005 | 26-054116 | 66,760 |
| HOPWA CAD Administration 2005-2008 | 14.241 | TXH05F005 | 26-054124 | 776,853 |
| Total Housing Opportunities for Persons with AIDS | | | | <u>\$ 843,521</u> |
| Fair Housing Assistance Program-State and Local: | | | | |
| Anti-Predatory Lending Counseling Program | 14.401 | HC030996074 | 26-054113 | \$ (615) |
| Anti-Predatory Lending Counseling Program | 14.401 | HC030996074 | 26-054113 | 31,870 |
| Housing Counseling Program 2003-2004 | 14.401 | HC0108 | 26-054113 | 108,818 |
| Housing Counseling Program 2004-2005 | 14.401 | TBA | 26-054113 | (41,110) |
| Total Fair Housing Assistance Program State and Local | | | | <u>\$ 98,963</u> |
| Fair Housing Initiatives Program: | | | | |
| Fair Housing Initiatives Program 1998-1999 | 14.408 | TBA | 26-054084 | \$ 1,849 |
| Fair Housing Initiatives Program 2005-2006 | 14.408 | TBA | 26-054126 | 7,285 |
| Total Fair Housing Initiatives Program | | | | <u>\$ 9,134</u> |
| Lead-Based Paint Hazard Control in Privately-Owned Housing: | | | | |
| Lead-Based Paint Hazard Program 1999-2002 | 14.900 | TXLHR012498 | 26-054093 | \$ (271) |
| Lead-Based Paint Monitoring 2004-2008 | 14.900 | TXLHR0 | 26-054118 | 1,306,296 |
| Total Lead-Based Paint Hazard Control in Privately-Owned Housing | | | | <u>\$ 1,306,025</u> |
| Pass Through - State Health and Human Services Commission | | | | |
| Empowerment Zones Program: | | | | |
| Enterprise Communities | 14.244 | G*9501TXECUR | 26-054076 | \$ (8,911) |
| Total U.S. Department of Housing and Urban Development | | | | <u>\$ 35,790,876</u> |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures of Federal Awards

September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------|---------------------|-------------|----------------------|
| U.S. Department of the Interior | | | | |
| Pass Through - Texas Historical Commission | | | | |
| Historic Preservation Fund Grant-In Aid: | | | | |
| Kid Adventures Project | 15.904 | 52000314 | 26-052041 | \$ (92,376) |
| Training and Travel - THC Grant | 15.904 | TX-06-029 | 26-006020 | 2,223 |
| Total Historic Preservation Fund Grant-In Aid | | | | <u>\$ (90,153)</u> |
| Pass Through - Texas Department of Parks and Wildlife | | | | |
| Urban Parks and Recreation Recovery Program: | | | | |
| Medina River Park Project | 15.919 | 52-00100 & 53-00007 | 26-052038 | \$ 45,280 |
| Lincoln Park Pool and Playground Rehabilitation | 15.919 | 48-CYT-6090-01-01 | 26-052039 | 425 |
| Cathedral Rock Nature Park | 15.919 | 125099 | 26-052040 | 13,826 |
| Stone Oak Park Improvements | 15.919 | TBA | 26-052042 | 100,000 |
| Total Urban Parks and Recreation Recovery Program | | | | <u>\$ 159,531</u> |
| Total U.S. Department of the Interior | | | | <u>\$ 69,378</u> |
| U.S. Department of Justice | | | | |
| Pass-Through - Texas Division of Criminal Justice | | | | |
| Juvenile Accountability Incentive Block Grants: | | | | |
| Crisis Assistance Team Admin 2006-2007 | 16.523 | 13949-09 | 26-055331 | \$ 17,121 |
| JABG START 2005-2006 | 16.523 | JB01J201330107 | 26-055328 | 42,751 |
| JAIBG Indirect Project | 16.523 | JB99J201330102 | 26-055305 | (44,193) |
| Juvenile Accountability Incentive | 16.523 | JB01J201330104 | 26-055312 | (873) |
| Juvenile Accountability Incentive Block | 16.523 | JB01J2001330106 | 26-055321 | (34,591) |
| Juvenile Accountability Incentive | 16.523 | JB01J201330105 | 26-055316 | 3,442 |
| Project EASE 2003-2004 | 16.523 | VA02V301621102 | 26-055317 | (336) |
| Project EASE 2004-2005 | 16.523 | 162110220042005 | 26-055320 | (11,000) |
| Project EASE 2005-2006 | 16.523 | 16211-04 | 26-055324 | 57,823 |
| Project EASE 2006-2007 | 16.523 | 16211-05 | 26-055329 | 1,736 |
| Total Juvenile Accountability Incentive Block Grants | | | | <u>\$ 31,880</u> |
| Direct Programs | | | | |
| Edward Byrne Memorial Formula Grant Program: | | | | |
| HIDTA Initiative San Antonio 2005 | 16.579 | I5PSSP700Z | 26-028077 | \$ 605,484 |
| HIDTA Initiative San Antonio 2006 | 16.579 | I6PSSP700Z | 26-028079 | 1,256,576 |
| HIDTA - Narcotic Disruption Task Force 0280 | 16.579 | I2PSSP65 | 26-028067 | 2 |
| JAG Grant 2005-2009 | 16.579 | 2005DJBX0602 | 26-028078 | 277,903 |
| San Antonio Initiative 2003 (#I3PSSP70) | 16.579 | I3PSSP700 | 26-028071 | 86,258 |
| South Texas Intelligence Center 2002 | 16.579 | I2PSSP85 | 26-028065 | (4,137) |
| South Texas Intelligent Center | 16.579 | I4PSSP700Z | 26-028074 | (21,091) |
| Total Edward Byrne Memorial Formula Grant Program | | | | <u>\$ 2,200,995</u> |
| Subtotal U.S. Department of Justice | | | | <u>\$ 2,232,875</u> |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards
September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------------|-----------------|----------------|-------------------------|
| U.S. Department of Justice (continued) | | | | |
| Direct Programs (continued) | | | | |
| Violence Against Women Formula Grants: | | | | |
| Early Intervention for Women 2002-2003 | 16.588 | WF02V301394805 | 26-055314 | \$ (248) |
| Crisis Assistance Team Administration 2002-2003 | 16.588 | WF02V301394905 | 26-055315 | (70) |
| Early Intervention for Women 2003-2004 | 16.588 | WF03V301394806 | 26-055318 | 248 |
| Crisis Assistance Team Administration 2003-2004 | 16.588 | WF02V301394906 | 26-055319 | 83,856 |
| Crisis Assistance Team Administration 2004-2005 | 16.588 | 13949-07 | 26-055322 | (80,738) |
| Early Intervention for Women 2004-2005 | 16.588 | WF04V301394807 | 26-055323 | (3,352) |
| CJD - CATA 2005-2006 | 16.588 | VA05V301394908 | 26-055325 | 50,422 |
| Early Intervention for Women 2005-2006 | 16.588 | WF05V301394908 | 26-055333 | 225,952 |
| Total Violence Against Women Formula Grants | | | | \$ 276,070 |
| Local Law Enforcement Block Grant Program: | | | | |
| Local Law Enforcement 2002-2004 | 16.592 | 2002LBBX2575 | 26-028068 | \$ (235,669) |
| Local Law Enforcement 2003-2005 | 16.592 | 2002LBBX2651 | 26-028073 | 271,993 |
| Local Law Enforcement 2004-2006 | 16.592 | 2004LBBX0869 | 26-028075 | 287,063 |
| Total Local Law Enforcement Block Grant Program | | | | \$ 323,387 |
| Community Capacity Development Office: | | | | |
| Weed and Seed Initiative | 16.595 | 2002WSQX0111 | 26-012267 | \$ (66,503) |
| Weed and Seed Initiative | 16.595 | 2005WSQ50200 | 26-012295 | 153,256 |
| Total Community Capacity Development Office | | | | \$ 86,753 |
| Bulletproof Vest Partnership Program: | | | | |
| Ballistic Vest Acquisition Program | 16.607 | V442015011 | 26-028054 | \$ 43,859 |
| Federal Confiscated Property: | | | | |
| Federal Account | 16.xxx | N/A | 29-039000 | \$ 157,102 |
| HIDTA - DPS Federal | 16.xxx | N/A | 29-045000 | 6,601 |
| HIDTA - Federal Account | 16.xxx | N/A | 29-046000 | 184,520 |
| Total Federal Confiscated Property | | | | \$ 348,223 |
| Public Safety Partnership and Community Policing Grants: | | | | |
| Universal Hiring Program 2001 | 16.710 | 2001ULWX0031 | 26-028061 | \$ (271) |
| Methamphetamine Grant 2004 | 16.710 | 2004CKWX0402 | 26-028076 | 26,927 |
| Total Juvenile Accountability Incentive Block Grant | | | | \$ 26,656 |
| Total U.S. Department of Justice | | | | \$ 3,337,823 |

* Major Program

(Continued)

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures of Federal Awards
September 30, 2006

| 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 | 17.260 | CCDS2003001 | 26-039018 | \$ 172,154 |
| Youth Opportunity Grants: | | | | |
| DCI Support Project | 17.263 | YOG 2001 | 26-029066 | \$ 2,865 |
| Escaping Poverty Thru Work in San Antonio | 17.263 | TBA | 26-029060 | (2,640) |
| Year 6 YO! Administration | 17.263 | TBA | 26-029067 | 2,071,547 |
| YO Project - Health Project | 17.263 | YOG 2001 | 26-029065 | (89,333) |
| Youth Opportunity Project - Health | 17.263 | TOG 2001003 | 26-029064 | (3,730) |
| Total Youth Opportunity Grants | | | | <u>\$ 1,978,709</u> |
| Total U.S. Department of Labor | | | | <u>\$ 2,150,863</u> |
| U.S. Department of Transportation | | | | |
| Direct Programs | | | | |
| Airport Improvement Program: * | | | | |
| TX DOT Block Grant 06-PGN-Env | 20.106 | TX DOT 6XXAV075 | 26-051214 | \$ 450,000 |
| Airport Airfield Guidance Signs Upgrade | 20.106 | 34801924101 | 26-058072 | 4,323 |
| Airport Remain Over Night Apron | 20.106 | 348019241 | 26-058073 | 2,099,370 |
| Environmental Impact Stmt - SA Internat'l Air | 20.106 | 348019244 | 26-058079 | 126,534 |
| Perimeter Road Reconstruction | 20.106 | 34801924603 | 26-058080 | 1,274,767 |
| Sky Place Drainage | 20.106 | 34801924603 | 26-058081 | 70,347 |
| Terminal and Airfield Security 44-02 | 20.106 | 34801924402 | 26-058082 | 267,683 |
| Residential Acoustical Program 45-03 | 20.106 | 3-48-019245-03 | 26-058083 | 1,666,892 |
| Safety Area Improvement 48-04 | 20.106 | 34801924804 | 26-058084 | 292,125 |
| ARFF 3000/Gallon Vehicle 48-04 | 20.106 | 34801924804 | 26-058085 | 358,695 |
| Airport Airfield Ltg 48-04 | 20.106 | 34801924804 | 26-058087 | 56,056 |
| Airport Apron Rehabilitation 50-05 | 20.106 | FAA3-48-0192050 | 26-058088 | 1,189,247 |
| TX DOT NPE SSF Grant (01, 02, 03) | 20.106 | TBA | 26-059211 | 355,084 |
| Total Airport Improvement Program | | | | <u>\$ 8,211,123</u> |
| Pass Through - Texas Department of Transportation | | | | |
| National Motor Carrier Safety: | | | | |
| Commercial Motor Vehicle Safety Step | 20.218 | 584XXF6061 | 26-059199 | \$ (66,379) |
| Commercial Motor Vehicle Safety Step | 20.218 | 583XXF6106 | 26-059194 | 66,379 |
| Total National Motor Carrier Safety | | | | <u>\$ -</u> |
| Subtotal U.S. Department of Transportation | | | | <u>\$ 8,211,123</u> |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures of Federal Awards

September 30, 2006

| 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) | | | | |
| Federal Transit-Metropolitan Planning Grants: | | | | |
| MPO Hike and Bike 2006-2007 | 20.505 | TBA | 26-059213 | \$ 72,227 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: | | | | |
| DWI Step Program 2006-2007 | 20.601 | 2659213 | 26-056062 | \$ 29,342 |
| Click It or Ticket - Step Program 2004 | 20.601 | 583XXF6154 | 26-059202 | (627) |
| Click It or Ticket 2006 | 20.601 | 586XXF6184 | 26-059203 | 89,213 |
| DWI Step Program 2004-2005 | 20.601 | 585XXF6043 | 26-059205 | (23,388) |
| DWI Step Program 2005-2006 | 20.601 | 586XXF6004 | 26-059207 | 470,491 |
| Click It or Ticket 2005 | 20.601 | OJP2001C003 | 26-059208 | 7 |
| Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant | | | | \$ 565,038 |
| Total U.S. Department of Transportation | | | | \$ 8,848,388 |
| National Endowment for the Arts | | | | |
| Pass Through - Texas Commission for the Arts | | | | |
| Promotion of the Arts - Grants to Organizations and Individuals: | | | | |
| Cultural Collaborative 2004-2005 | 45.024 | 478001064 | 26-005131 | \$ (473) |
| Cultural Collaborative Marketing 2004-2005 | 45.024 | 478001064 | 26-005133 | (550) |
| Total Promotion of the Arts - Grants to Organizations and Individuals | | | | \$ (1,023) |
| Promotion of the Arts - Partnership Agreements: | | | | |
| TCA Decentralized Program 2003-2004 | 45.025 | 04-25380 | 26-005130 | \$ (25) |
| National Endowment for the Arts/TCA 2006 | 45.025 | 06-27068 | 26-005136 | 34,127 |
| National Endowment for the Arts/TCA 2006 | 45.025 | 06-27283 | 26-005137 | 7,294 |
| Total Promotion of the Arts - Partnership Agreements | | | | \$ 41,396 |
| Total National Endowment for the Arts | | | | \$ 40,373 |
| * Major Program | | | | (Continued) |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------|---------------|-------------|----------------------|
| Institute of Museum and Library Services | | | | |
| Pass Through - Texas State Library and Archives Commission | | | | |
| Grants to States: | | | | |
| Interlibrary Loan Services 2002-2003 | 45.310 | 77103045 | 26-018118 | \$ (15,022) |
| Interlibrary Loan Services 2003-2004 | 45.310 | 77104045 | 26-018120 | 19,936 |
| Interlibrary Loan Services 2004-2005 | 45.310 | 771-05045 | 26-018125 | (7,161) |
| Interlibrary Loan Services 2005-2006 | 45.310 | 771-06045 | 26-018128 | 280,315 |
| Interlibrary Loan Services 2006-2007 | 45.310 | 771-07045 | 26-018133 | 19,337 |
| Library Sys Services - State Grant 2002-2003 | 45.310 | 47003010 | 26-018117 | 7,336 |
| Library Sys Services - State Grant 2003-2004 | 45.310 | 47004010 | 26-018121 | (98,422) |
| Library Sys Services - State Grant 2004-2005 | 45.310 | 470-05010 | 26-018124 | (4,286) |
| Library System Operation 2005-2006 | 45.310 | 470-06010 | 26-018129 | 557,591 |
| Library System Operation 2006-2007 | 45.310 | 470-07010 | 26-018134 | 97,740 |
| Technical Assistance Neg. Grant 2002-2003 | 45.310 | 47603020 | 26-018119 | 1,035 |
| Technical Assistance Neg. Grant 2003-2004 | 45.310 | 47604020 | 26-018122 | (977) |
| Technical Assistance Neg. Grant 2004-2005 | 45.310 | 476-05020 | 26-018126 | 26,757 |
| Technical Assistance Neg. Grant 2005-2006 | 45.310 | 476-06020 | 26-018131 | 40,000 |
| Total Grants to States | | | | <u>\$ 924,179</u> |
| National Leadership Grants: | | | | |
| Urban Library Tuition Reimbursement | 45.312 | TBA | 26-012265 | \$ 3,495 |
| Total Institute of Museum and Library Services | | | | <u>\$ 927,674</u> |
| Environmental Protection Agency | | | | |
| Direct Programs | | | | |
| Brownfield Pilots Cooperative Agreements: | | | | |
| Brownfield Site Assessment Demonstration | 66.811 | BP986443010 | 26-010001 | \$ 52,589 |
| Brownfield Petroleum Assessment Grant | 66.811 | BF-97675801-0 | 26-010002 | 5,316 |
| Total Brownfield Cooperative Agreements | | | | <u>\$ 57,905</u> |
| Total Environmental Protection Agency | | | | <u>\$ 57,905</u> |
| Department of Education | | | | |
| Pass Through - Texas Education Agency | | | | |
| Adult Education - State Grant Program: | | | | |
| English Literacy/Civics Education 2002-2003 | 84.002 | SASA31703 | 26-041002 | \$ (5,193) |
| English Literacy/Civics Education 2003-2004 | 84.002 | SASA31704 | 26-041003 | (30,750) |
| English Literacy/Civics Education 2004-2005 | 84.002 | SASA31705 | 26-041004 | 39,479 |
| English Literacy/Civics Education 2005-2006 | 84.002 | SASA31706 | 26-041005 | 66,975 |
| English Literacy/Civics Education 2006-2007 | 84.002 | SASA31707 | 26-041006 | 3,110 |
| Total Adult Education - State Grant Program | | | | <u>\$ 73,621</u> |
| Total Department of Education | | | | <u>\$ 73,621</u> |

* Major Program

(Continued)

CITY OF SAN ANTONIO, TEXAS

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September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|---|---------------------------|----------------------------------|----------------|-------------------------|
| U.S. Department of Health and Human Services | | | | |
| Direct Programs | | | | |
| Health Program for Toxic Substances and Disease Registry: | | | | |
| Community Environment Health Education | 93.161 | DHHS | 26-022096 | \$ 10,419 |
| Environmental Health Screening 2003-2004 | 93.161 | H75/STH672047-02 | 26-022098 | <u>3,248</u> |
| Total Health Program for Toxic Substances and Disease Registry | | | | <u>\$ 13,667</u> |
| Immunization Grants: | | | | |
| Immunization Maintenance 2002 | 93.268 | H23/CCH60449112 | 26-022087 | \$ 122 |
| Immunization Maintenance 2003 | 93.268 | H23/CCH622512-01 | 26-022094 | (258,398) |
| Immunization Maintenance 2004 | 93.268 | H23/CCH622512-02 | 26-022100 | 4,685 |
| Immunization Program 317 -2005 | 93.268 | Subaward Agreement 119856/119249 | 26-022105 | 799,131 |
| Childhood Immunization 317 - 2006 | 93.268 | H23/CCH622512-04 | 26-022111 | <u>1,359,222</u> |
| Total Immunization Grants | | | | <u>\$ 1,904,762</u> |
| Community Services Block Grant Discretionary Awards: | | | | |
| Metropolitan Medical Strike Team System | 93.570 | 282970041 | 26-022078 | \$ 9 |
| Training Technical Assistance and Capa | 93.570 | G90ET025301 | 26-022091 | <u>(160)</u> |
| Total Community Services Block Grant Discretionary Awards | | | | <u>\$ (151)</u> |
| Head Start: * | | | | |
| Head Start Program 2003 | 93.600 | COSA 03 NS | 26-022093 | \$ (80) |
| Head Start Program 2004 | 93.600 | 06CH0104/26 | 26-0022101 | (485) |
| Head Start Program 2005 | 93.600 | 06CH0107/27 | 26-022103 | 16,836,829 |
| Head Start Program 2006 | 93.600 | 06CH107/28 | 26-022112 | <u>28,454,252</u> |
| Total Head Start | | | | <u>\$ 45,290,516</u> |
| Assets for Independence Demonstration Program: | | | | |
| Families Save 1 Program | 93.602 | G90E1006001 | 26-022080 | \$ (13) |
| Families Save 2 IDA | 93.602 | 90E10135/01 | 26-022095 | <u>677,085</u> |
| Total Assets for Independence Demonstration Program | | | | <u>\$ 677,072</u> |
| Healthy Start Initiative: | | | | |
| Healthy Start Initiative 2002-2003 | 93.926 | 5H49MC0010102 | 26-022088 | \$ 803 |
| Healthy Start Initiative 2003-2004 | 93.926 | 5 H49 MC 00101-03 0 | 26-022097 | (129,119) |
| Healthy Start Initiative 2004-2005 | 93.926 | HRSA 5 H49MC00101-04-00 | 26-022102 | 365,232 |
| Healthy Start Initiative 2005-2006 | 93.926 | 2 H49MC00101-05-00 | 26-022109 | 310,235 |
| Healthy Start Initiative 2006-2007 | 93.926 | 2007-020417-001 | 26-022119 | <u>(35,723)</u> |
| Total Healthy Start Initiative | | | | <u>\$ 511,428</u> |
| Subtotal U.S. Department of Health and Human Services | | | | <u>\$ 48,397,294</u> |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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September 30, 2006

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|---|---------------------|-------------------------------|-------------|----------------------|
| U.S. Department of Health and Human Services (continued) | | | | |
| Pass Through - Alamo Area Council of Governments | | | | |
| Aging Cluster: | | | | |
| Special Program for the Aging - Title III, * | | | | |
| Part B - Services and Senior Centers: | | | | |
| SSEP Supportive Service for Elderly 2005-2006 | 93.044 | TBA | 26-011073 | \$ 366,262 |
| Supportive Services 2004-2005 | 93.044 | COSA 03 SST | 26-011071 | 72,004 |
| Supportive Srvs for the Elderly 2003-2004 | 93.044 | COSA 04 SSEP | 26-011069 | <u>(100,853)</u> |
| Total Special Program for the Aging - Title III, Part B - Services and Senior Centers | | | | \$ 337,413 |
| Special Program for the Aging - Title III, | | | | |
| Part C - Nutrition Services: | | | | |
| Claude Black MSC Project 011066 | 93.045 | COSA 03 NS | 26-011066 | \$ (9,430) |
| CNP Administration 2005-2006 | 93.045 | TBA | 26-011074 | 4,358,284 |
| CNP Evidence Based Prevention 2005-2006 | 93.045 | TBA | 26-011075 | 15,362 |
| SSEP Supportive Service for Elderly 2006-2007 | 93.045 | COSA 06 SST | 26-011077 | <u>43,698</u> |
| Total Special Program for the Aging - Title III, Part C - Nutrition Services | | | | \$ 4,407,914 |
| Total Aging Cluster | | | | \$ 4,745,327 |
| Pass Through - State Department of Health | | | | |
| Public Health Emergency Preparedness: | | | | |
| PHEP Program 2005-2006 | 93.069 | 7460020708 2006 | 26-016070 | \$ 1,436,608 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Program: | | | | |
| Special T.B. Team Project 2003 | 93.116 | 74600207080404 | 26-016058 | \$ 2,802 |
| Special T.B. Team Project 2004 | 93.116 | 74600207080501 | 26-016066 | 1,553 |
| Special T.B. Team Project 2005 | 93.116 | 7460020708 2006 | 26-016104 | 139,878 |
| Special T.B. Team Project 2006 | 93.116 | 7460020708 2007 Chg 00 Att 01 | 26-016108 | <u>286,571</u> |
| Total Project Grants and Cooperative Agreements for Tuberculosis Control Program | | | | \$ 430,804 |
| Occupational Safety and Health Program: | | | | |
| Childhood Lead Poisoning Program 2005-2006 | 93.262 | 7460020708 2006 | 26-016104 | \$ (17,029) |
| Center for Disease Control and Prevention - Investigations and Technical Assistance: | | | | |
| Bio-Terrorism Preparation 2002 | 93.283 | 74600207080316 | 26-016052 | \$ 226 |
| Bio-Terrorism Preparation 2003-2004 | 93.283 | 74600207080402 | 26-016058 | 12,376 |
| Bio-Terrorism Preparation 2004-2005 | 93.283 | 7460020708 2005 | 26-016066 | 248,185 |
| Bio-Terrorism Prep. Lab 2004-2005 Renov. | 93.283 | 7460020708 | 26-016100 | 1,109 |
| Cities Readiness Initiative 2006 | 93.283 | 7460020708 2006 | 26-016110 | 3,183 |
| Steps to a Healthier U.S. 2004-2005 | 93.283 | U58/CCU624469-01 | 26-022104 | 71,890 |
| Steps to a Healthier U.S. 2005-2006 | 93.283 | U58/CCU624469-02 | 26-022110 | 1,291,940 |
| Steps to a Healthier U.S. 2006-2007 | 93.283 | U58/CCU624469-03 | 26-022121 | <u>28,197</u> |
| Total Center for Disease Control and Prevention - Investigations and Technical Assistance | | | | \$ 1,657,106 |
| Subtotal U.S. Department of Health and Human Services | | | | \$ 8,252,816 |

* Major Program

(Continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------|-----------------|-------------|----------------------|
| U.S. Department of Health and Human Services (continued) | | | | |
| Pass Through - State Department of Health (continued) | | | | |
| HIV Prevention Activities - Health Department | | | | |
| Based: | | | | |
| AIDS Prevention/Surveillance 2000-2001 | 93.940 | 7460020708012 | 26-016040 | \$ 43 |
| AIDS Prevention/Surveillance 2004 | 93.940 | 74600207080502 | 26-016066 | 1,728 |
| AIDS Prevention/Surveillance 2005 | 93.940 | 7460020708 2006 | 26-016104 | 20,199 |
| Evidence Based Intervention Program | 93.940 | 7460020708 2007 | 26-016108 | 137,286 |
| Total HIV Prevention Activities - Health Department Based | | | | \$ 159,256 |
| HIV/AIDS Surveillance: | | | | |
| AIDS Surveillance Program 2003-2004 | 93.944 | 74600207080401 | 26-016058 | \$ 241 |
| AIDS Surveillance Program 2005 | 93.944 | 7460020708 2006 | 26-016104 | 27,350 |
| AIDS Surveillance Program 2006 | 93.944 | 7460020708 2007 | 26-016108 | 97,407 |
| Total HIV/AIDS Surveillance | | | | \$ 124,998 |
| Preventative Health Services - Sexually Transmitted Diseases Control Grants: | | | | |
| STD Staff Support Project | 93.977 | 7460020708034 | 26-016052 | \$ (271) |
| STD Staff Support Project | 93.977 | 74600207080403 | 26-016058 | (24,083) |
| STD Staff Support Project | 93.977 | 74600207080503 | 26-016066 | 36,813 |
| STD Staff Support Project | 93.977 | | 26-016104 | 126,891 |
| STD Staff Support Program | 93.977 | 7460020708 2007 | 26-016108 | 224,317 |
| Total Preventative Health Services - Sexually Transmitted Diseases Control Grants | | | | \$ 363,667 |
| 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 | \$ 49 |
| Families Preventing Diabetes Prog. 2005-2006 | 93.988 | 7460020708 2006 | 26-016104 | 39,371 |
| Families Preventing Diabetes Prog. 2006-2007 | 93.988 | 7460020708 2007 | 26-016108 | 41,642 |
| Total Cooperative Agreements for State-Based Diabetes - Control Programs and Evaluation of Surveillance Systems | | | | \$ 81,062 |
| Pass Through - Texas Department of Housing and Community Affairs | | | | |
| Community Services Block Grant: | | | | |
| CAP West Support Project 060072 | 93.569 | 611061612 | 26-060072 | \$ (1,166) |
| CAP West Support Project 060073 | 93.569 | 611061613 | 26-060073 | 1,932 |
| Community Programs Project 060075 | 93.569 | 611061614 | 26-060075 | 13,274 |
| Community Services Program Admin. 2005 | 93.569 | 611061615 | 26-060077 | 617,268 |
| CDBG Discretionary Funds | 93.569 | 611061615 | 26-060078 | 714 |
| CSBG - Emergency Relief Katrina 2005 | 93.569 | N/A | 26-060079 | 27,990 |
| CSBG - Community Action Division 2006 | 93.569 | N/A | 26-060080 | 1,342,882 |
| Total Community Services Block Grant | | | | \$ 2,002,894 |
| Subtotal U.S. Department of Health and Human Services | | | | \$ 2,731,877 |

* Major Program

(Continued)

CITY OF SAN ANTONIO, TEXAS

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| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------|---------------------------------|-------------|----------------------|
| U.S. Department of Health and Human Services (continued) | | | | |
| Pass Through - Texas Department of Housing and Community Affairs (continued) | | | | |
| Refugee and Entrant Assistance Discretionary Grants: | | | | |
| Refugee Health Screening 2003-2004 | 93.576 | 74600207080412 | 26-016058 | \$ 509 |
| Refugee Health Screening 2004-2005 | 93.576 | 7460020708 2005 | 26-016066 | 9,141 |
| Refugee Health Screening 2005-2006 | 93.576 | 7460020708 2006 | 26-016110 | 50,078 |
| Total Refugee and Entrant Assistance Discretionary Grants | | | | \$ 59,728 |
| Pass Through - Alamo Workforce Development, Inc. | | | | |
| Child Care Cluster: * | | | | |
| Child Care and Development Block Grant | | | | |
| Infant and Toddler Block Grant | 93.575 | 08220A01 | 26-039014 | \$ (28) |
| CCDS - 2004-2005 | 93.575 | CCDS2003001 | 26-039017 | 84,936 |
| CCDS - 2005-2006 | 93.575 | CCDS2003001 | 26-039018 | 8,063,925 |
| CCDS - 2006-2007 | 93.575 | CCDS2003001 | 26-039019 | (627) |
| | | | | \$ 8,148,206 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund: | | | | |
| CCDS - 2002-2003 | 93.596 | 08220Y00 | 26-039013 | \$ 285,876 |
| CCDS - 2003-2004 | 93.596 | CCDS2003001 | 26-039016 | 72,487 |
| CCDS - 2004-2005 | 93.596 | CCDS2003001 | 26-039017 | 256,892 |
| CCDS - 2005-2006 | 93.596 | CCDS2003001 | 26-039018 | 33,123,588 |
| CCDS - 2006-2007 | 93.596 | CCDS2003001 | 26-039019 | (587) |
| Total Child Care Mandatory and Matching Funds of the Child Care and Development Fund | | | | \$ 33,738,256 |
| Total Child Care Cluster | | | | \$ 41,886,462 |
| Foster Care Title IV - E: | | | | |
| CCDS - Foster Care 2005-2006 | 93.658 | CCDS2003001 | 26-039018 | \$ 357,500 |
| Pass Through - Texas Workforce Commission | | | | |
| Family Planning Services: | | | | |
| Family Planning Project 2002-2003 | 93.217 | 7460020708A 2003 Att 03 | 26-016054 | \$ (5,418) |
| Family Planning Project 2003-2004 | 93.217 | 7460020708 C 2004 Chg 03 Att 04 | 26-016063 | 107,347 |
| Title X Family Planning 2005-2006 | 93.217 | 746006020708 2006 | 26-016110 | 38,783 |
| Total Family Planning Services | | | | \$ 140,712 |
| Social Services Block Grant: | | | | |
| Title XX Family Planning Project 2005-2006 | 93.667 | 7460020708A 200 | 26-016110 | \$ 257,749 |
| Title XX Family Planning 2006-2007 | 93.667 | 2007-020438-003 | 26-016108 | 63,025 |
| CMPAS - Family Care Providers | 93.667 | 34041P00 | 26-017101 | (5,168) |
| Total Social Services Block Grant | | | | \$ 315,606 |
| Subtotal U.S. Department of Health and Human Services | | | | \$ 42,760,008 |
| * Major Program | | | | (Continued) |

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|---|---------------------------|--------------------------------|----------------|-------------------------|
| U.S. Department of Health and Human Services (continued) | | | | |
| Pass Through - Texas Workforce Commission (continued) | | | | |
| Cooperative Agreements for State-Based | | | | |
| Comprehensive Breast: | | | | |
| Breast/Cervical Cancer Control 2002-2003 | 93.919 | 7460020708A 2003 Att 05 | 26-016057 | \$ 8 |
| Breast/Cervical Cancer Control 2003-2004 | 93.919 | 7460020708A 2004 Att 01 | 26-016060 | 17 |
| Breast/Cervical Cancer Control 2004-2005 | 93.919 | 7460020708B 2005 Chg 00 Att 01 | 26-016068 | 24,291 |
| Breast/Cervical Cancer Control 2005-2006 | 93.919 | 7460020708A 2006 Chg 00 Att 01 | 26-016110 | 125,251 |
| Breast/Cervical Cancer Control 2005-2006 | 93.919 | 2006-020051-001 | 26-016110 | 24,876 |
| Total Cooperative Agreements for State-Based Comprehensive Breast | | | | <u>\$ 174,443</u> |
| Pass Through - State of Texas | | | | |
| Maternal and Child Health Services Block | | | | |
| Grant to the States: | | | | |
| Title V Maternal and Child Health 2006-2007 | 93.994 | 26016108 | 26-016108 | \$ 1,066 |
| Family Health Core PH POP Based 2004-2005 | 93.994 | 7460020708 2005 | 26-016066 | 9,518 |
| Total Maternal and Child Health Services Block Grant to the States | | | | <u>\$ 10,584</u> |
| Pass Through - University of Texas Health Science Center | | | | |
| Child Health and Human Development | | | | |
| Extramural Research: | | | | |
| Stillbirth Study 2004-2005 | 93.865 | Subaward Agreement | 26-012284 | \$ 37,672 |
| Stillbirth Study UTHSCSA SAMHD 2005-2006 | 93.865 | Subaward Agreement | 26-012291 | 31,949 |
| Total Child Health and Human Development Extramural Research | | | | <u>\$ 69,621</u> |
| Total U.S. Department of Health and Human Services | | | | <u>\$ 102,396,643</u> |

* Major Program

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| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|---|---------------------------|-------------------|----------------|-------------------------|
| U.S. Department of Homeland Security | | | | |
| Pass Through - Local Emergency Food and Shelter Board | | | | |
| Emergency Food and Shelter National Board Program: | | | | |
| Emergency Food and Shelter 2006 | 97.024 | 23-7886-00-010 E1 | 26-056064 | \$ 106,318 |
| Community Action Program - Admin. Proj. 05604 | 97.024 | 788600010 | 26-056042 | 8,144 |
| Community Action Program - Admin. Proj. 05604 | 97.024 | 788600010 | 26-056046 | 8,798 |
| Emergency Food and Shelter 2003-2004 | 97.024 | 788600010 | 26-056053 | 25,919 |
| Emergency Food and Shelter 2004-2005 | 97.024 | 788600010 | 26-053055 | <u>5,579</u> |
| Total Emergency Food and Shelter National Board Program | | | | <u>\$ 154,758</u> |
| Direct Programs | | | | |
| National Explosives Detection Canine Team Program: | | | | |
| Airport K9 | 97.072 | DTFA0102A02101 | 26-065017 | <u>\$ 265,057</u> |
| Total National Explosives Detection Canine Team Program | | | | <u>\$ 265,057</u> |
| Pass Through - State of Texas | | | | |
| Urban Areas Security Initiative | | | | |
| UASI 2004 | 97.008 | 2004 UASI 65000 | 26-065006 | <u>\$ 2,124,562</u> |
| Hazard Mitigation Grant: | | | | |
| Disaster Relief - Flood of 1998 | 97.039 | FEMA1257DR | 26-056032 | <u>\$ 626,480</u> |
| Assistance to Firefighters Grant: | | | | |
| Assistance to Firefighters Grant 2004 | 97.044 | EMW2004FG11715 | 26-056056 | \$ 179,984 |
| Assistance to Firefighters Grant 2005 | 97.044 | EMW2005FG15234 | 26-056058 | 3,331 |
| Communication Equipment Replacements | 97.044 | DPS 200003 | 26-056047 | <u>(20)</u> |
| Total Assistance to Firefighters Grant | | | | <u>\$ 183,295</u> |
| Disaster Grants - Public Assistance (Presidentially Declared Disaster): | | | | |
| Hurricane Katrina Relief Project | 97.036 | N/A | 26-056058 | <u>\$ 24,484,774</u> |
| Subtotal U.S. Department of Homeland Security | | | | <u>\$ 27,838,926</u> |

* Major Program

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| FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM | FEDERAL CFDA NUMBER | GRANT NUMBER | CITY NUMBER | FEDERAL EXPENDITURES |
|--|---------------------------|-----------------|----------------|-------------------------|
| U.S. Department of Homeland Security (continued) | | | | |
| Pass Through - State of Texas (continued) | | | | |
| Homeland Security Cluster: * | | | | |
| State and Local Domestic Preparedness Equipment Support Program: | | | | |
| State Domestic Preparedness Program | 16.007 | 2003-II-65000 | 26-065002 | \$ (155,680) |
| Emergency Management Performance Grants: | | | | |
| EMPG 2004-2005 | 97.042 | 4000090 | 26-056057 | \$ 100,628 |
| Homeland Security Grant Program: | | | | |
| Homeland Security | 97.067 | 2003II65000 | 26-065002 | \$ 79,546 |
| EMPG 2005-2006 | 97.067 | 40001260 | 26-056058 | 100,262 |
| UASI 2005 | 97.067 | 2005 HSGP 65000 | 26-065012 | 110,537 |
| Metro Medical Response System 2004-2006 | 97.067 | 2005 HSGP-65000 | 26-065007 | <u>110,042</u> |
| Total Homeland Security Grant Program | | | | <u>\$ 400,387</u> |
| Metropolitan Medical Response System: | | | | |
| MMRS | 97.071 | 233-03-0068 | 26-022099 | \$ 5,550 |
| Metro Medical Response System 2004-2006 | 97.071 | 40000750 | 26-065005 | <u>282,649</u> |
| Total Metropolitan Medical Response System | | | | <u>\$ 288,199</u> |
| State Homeland Security Program: | | | | |
| Homeland Security - State | 97.073 | 2003II65000 | 26-065002 | \$ 199,887 |
| SHSP 2005 | 97.073 | 40001116 | 26-065010 | 359,905 |
| SHSP Police 2004 | 97.073 | 2004 SHSP 65000 | 26-065004 | <u>356,944</u> |
| Total State Homeland Security Program | | | | <u>\$ 916,736</u> |
| Law Enforcement Terrorism Prevention Program (LETPP): | | | | |
| Law Enforcement Terrorism Prev 2003-2005 | 97.074 | 21004 HSGP 6500 | 26-065003 | \$ 67,569 |
| Law Enforcement Terrorism Prev 2004-2006 | 97.074 | 21005 HSGP 6500 | 26-065009 | <u>131,410</u> |
| Total Law Enforcement Terrorism Prevention Program (LETPP): | | | | <u>\$ 198,979</u> |
| Total Homeland Security Cluster | | | | <u>\$ 1,593,569</u> |
| Total U.S. Department of Homeland Security | | | | <u>\$ 29,588,175</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u>\$ 189,728,329</u> |

* 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, 2006

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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
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 Greater Kelly Development Authority (GKDA) to fund certain improvements in real property to be leased at KellyUSA. As of September 30, 2006, the City has made third party loans to the GKDA 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 will be 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. There were no reimbursements requested in fiscal year 2006.

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Notes to the Schedule of Expenditures
of Federal Awards Year Ended (Continued)
September 30, 2006

4. In fiscal year 2006, 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 | \$ 3,833 |
| Community Development Block Grants/Entitlement Grants | 14.218 | 5,460,280 |
| Emergency Shelter Grants Program | 14.231 | 121,271 |
| Supportive Housing Program | 14.235 | 3,287,959 |
| HOME Investment Partnerships Program | 14.239 | 7,556,955 |
| Housing Opportunities for Persons with AIDS | 14.241 | 805,694 |
| Empowerment Zones Program | 14.244 | (866) |
| Fair Housing Initiatives Program | 14.408 | 5,059 |
| Historic Preservation Fund Grant | 15.904 | (107,107) |
| Edwards Byrne Memorial Formula Grant Program | 16.579 | 9,600 |
| Youth Opportunity Grants | 17.263 | 37,092 |
| Public Health Emergency Preparedness | 93.069 | 17,622 |
| Tuberculosis Control Programs | 93.116 | 6,202 |
| Health Programs for Toxic Substance and Disease Regist. | 93.161 | 1,740 |
| Immunization Grant | 93.268 | 67,042 |
| Healthy Steps | 93.283 | 91,226 |
| Community Service Block Grant | 93.569 | 124,801 |
| Child Care and Development Block Grant | 93.575 | 84,792 |
| Child Care and Development Block Grant | 93.596 | 1,068,711 |
| Head Start | 93.600 | 44,835,233 |
| Breast and Cervical Cancer Early Detection Programs | 93.919 | 131 |
| HIV Prevention Activities-Health Department Based | 93.940 | 557 |
| Urban Areas Security Initiative | 97.008 | 614,229 |
| Metro Medical Response Systems | 97.071 | 2,344 |
| Airport K-9 | 97.072 | 84 |
| SHSP Firefighting | 97.073 | 2,332 |
| Total | | \$ 64,096,816 |

Notes to the Schedule of Expenditures
of Federal Awards Year Ended (Continued)
September 30, 2006

5. As of September 30, 2006, the City had HOME Program Notes Receivable of \$2,156,136. 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, 2006, 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.

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City of San Antonio, Texas



Other Reports

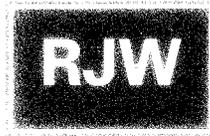
City of San Antonio, Texas



***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***



300 Convent, Suite 1200
San Antonio, TX 78205



Robert J. Williams
Certified Public Accountant
1100 N.W. Loop 410, Suite 700
San Antonio, TX 78213

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, TX 78230-2573

**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***

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

We have jointly 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, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2007. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

| | <u>Percent not jointly audited</u> | |
|--------------------------------------|---|---|
| | <u>Total assets</u> | <u>Total revenue</u> |
| Government-wide | | |
| Governmental activities | 0% | 0% |
| Business-type activities | 0% | 0% |
| Discretely presented component units | 100% | 100% |
| Fund statements | | |
| Major funds | 0% | 0% |
| Aggregate remaining fund information | 77% | 35% |
| | <u>Percent audited by</u> <u>KPMG & Robert J. Williams</u> | <u>Percent audited by</u> <u>Leal & Carter</u> |
| | <u>Total assets</u> <u>Total revenue</u> | <u>Total assets</u> <u>Total revenue</u> |
| Government-wide | | |
| Discretely presented component units | 71% 78% | 1% 2% |
| Fund statements | | |
| Aggregate remaining fund information | 0% 0% | 7% 4% |

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, audited certain discretely presented component units and blended component units as described in the preceding paragraph. The financial statements audited by other auditors include the City Public Service Board, Brooks Development Authority, San Antonio Education Facilities Corp., San Antonio Health Facilities Development Corp., San Antonio Industrial Development Authority, San Antonio Fire & Police Retiree Health Care Fund, San Antonio Fire & Police Pension Fund, San Antonio Development Authority, and San Antonio Housing Trust Foundation, Inc. which were not audited in accordance with *Government Auditing Standards*.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of San Antonio, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of San Antonio, Texas' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, 06-03, and 06-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider item 06-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of San Antonio, Texas' basic 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 reported to management of the City of San Antonio, Texas in a separate letter dated June 26, 2007.

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.

KPMG LLP Robert Williams CPA Teal & Carter, P.C.

June 26, 2007

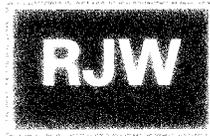
City of San Antonio, Texas



***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***



300 Convent, Suite 1200
San Antonio, TX 78205



Robert J. Williams
Certified Public Accountant
1100 N.W. Loop 410, Suite 700
San Antonio, TX 78213

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, TX 78230-2573

**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**

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

Compliance

We have audited the compliance of the City of San Antonio, Texas (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City's major federal programs are identified in the summary of auditors' 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 San Antonio Water System, Port Authority of San Antonio and San Antonio Local Development Company, Inc., which received federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2006. Our audit, described below, did not include the operations of the San Antonio Water System, Port Authority of San Antonio and San Antonio Local Development Company, Inc. because the component units engaged other auditors to perform audits 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 identified below and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to the identified major federal programs.

| Program | Compliance requirement | Finding number |
|---|--------------------------------------|-----------------------|
| Community Economic Adjustment | Allowable costs/ cost principles | 06-05 |
| Community Economic Adjustment | Equipment & real property management | 06-06 |
| Community Development Block Grants | Reporting | 06-12 |
| Supportive Housing Program | Subrecipient monitoring | 06-16 |
| HOME Investment Partnerships Program | Subrecipient monitoring | 06-18 |
| Aviation Improvement Program | Equipment & real property management | 06-19 |
| Child Care and Development Fund Cluster | Eligibility | 06-20 |

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, 2006. The results of our auditing procedures also disclosed other 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 06-07, 06-08, 06-09, 06-10, 06-11, 06-13, 06-14, 06-17, and 06-21.

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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-05, 06-06, 06-09, 06-10, 06-11, 06-12, 06-13, 06-14, 06-15, 06-16, 06-17, 06-18, 06-19, 06-20, and 06-21.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-05, 06-06, 06-12, 06-13, 06-14, 06-15, 06-16, 06-18, 06-19, and 06-21 to be material weaknesses.

* * * * *

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.

KPMG LLP Robert Williams CPA Teal & Carter, P.C.

August 3, 2007

City of San Antonio, Texas



Schedule of Findings and Questioned Costs

City of San Antonio, Texas
 Schedule of Findings and Questioned Costs
 Federal Grants
 For the Fiscal Year Ended September 30, 2006

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes None reported

Type of auditors’ report issued on compliance for major programs:

- Qualified:
- Community Economic Adjustment CFDA No. 12.600
 - Community Development Block Grant/Entitlement Grants CFDA No. 14.218
 - Supportive Housing Program CFDA No. 14.235
 - HOME Investment Partnerships Program CFDA No. 14.239
 - Aviation Improvement Program CFDA No. 20.106
 - Child Care and Development Fund Cluster CFDA No. 93.575 and 93.596
- Unqualified:
- Grants to States CFDA No. 45.310
 - Aging Cluster CFDA No. 93.044 and 93.045
 - Head Start CFDA No. 93.600
 - Homeland Security Cluster CFDA No. 16.007, 97.042, 97.067, 97.071, 97.073 and 97.074

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? X Yes No

City of San Antonio, Texas
 Schedule of Findings and Questioned Costs
 Federal Grants
 For the Fiscal Year Ended September 30, 2006

Identification of major programs:

| CFDA number(s) | Name of federal program or cluster |
|---|---|
| 12.600 | Community Economic Adjustment |
| 14.218 | Community Development Block Grants/Entitlement Grants |
| 14.235 | Supportive Housing Program |
| 14.239 | HOME Investment Partnerships Program |
| 20.106 | Aviation Improvement Program |
| 45.310 | Grants to States |
| 93.044 and 93.045 | Aging Cluster |
| 93.575 and 93.596 | Child Care and Development Fund Cluster |
| 93.600 | Head Start |
| 16.007, 97.042, 97.067, 97.071, 97.073, and 97.074 | Homeland Security Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of San Antonio, Texas
Schedule of Findings and Questioned Costs
Federal Grants
For the Fiscal Year Ended September 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 06-01 – Grant Accounting Management Process

Controls Over Grant Accounting

Type of Finding – Material Weakness

Criteria

Grant receivables and revenues are earned and recorded when allowable expenditures are incurred within the grant period and authorized award amount. Receivable balances should be requested for reimbursement, and adjusted to net realizable balance based on reimbursement received by the granting agency. These grant activities should be recorded in the entity's financial statements and reconciled to the schedule of expenditures of federal awards as required by *OMB Circular A-133*.

| |
|--------------------------------|
| <u>Questioned Cost</u> None |
|--------------------------------|

Condition

As a result of circumstances identified during the fiscal 2005 audit regarding the City's grant programs, the City undertook several initiatives to address and correct their concerns. These initiatives resulted in several positive improvements to the City's grant and contracts management such as a significant reduction in the accounts receivable balances owed to the City as a result of more timely billing of grantor agencies by the City.

The City's review and validation effort also resulted in numerous grant related adjustments being recorded to the City's financial records. The majority of the City's entries involved reclassifications and did not impact overall revenues and expenses recorded. However, during the audit process we identified corrections to a portion of these entries which required modifications to our audit approach. The root cause of the situation is that there were not effective top-level controls to ensure that grant activity recorded in the general ledger is consistent with the actual status of the grants per the individual departments.

Possible asserted cause and effect

The City's review and validation effort of its grant receivable balances identified approximately \$12 million of uncollectible balances. The uncollectible balances resulted from situations such as grant awards being overspent and/or the City not submitting reimbursement requests within the time period allotted by the grantor. These uncollectible balances will be funded over the next five years as part of the annual budget process.

Recommendation

While the City's review and validation effort appears to have identified the material issues surrounding its grants activity, it was extremely labor intensive and would not be practical to utilize this same approach on an ongoing basis. Now that the majority of the effort to address prior period inaccuracies and uncollectible receivable balances has been completed, we recommend that the City develop effective top-level controls to timely identify potential grant reporting and operational issues in order to maintain accurate accounting records on a go-forward basis. We also recommend that the City evaluate the current accounting structure in SAP for opportunities to improve accountability on a grant by grant basis and provide more effective monitoring. Furthermore, we encourage the City to continue monitoring and reconciling grant balances included in SAP against grant activities

City of San Antonio, Texas
Schedule of Findings and Questioned Costs
Federal Grants
For the Fiscal Year Ended September 30, 2006

maintained by individual departments and recommend that the City implement a plan to fund the deficit balance created by the uncollectible grant receivable balances.

Views of responsible officials and Corrective Action Plan

The grants accounting management process will be improved and addressed through multiple approaches to include a comprehensive review and validation of the City's Grant Awards, reorganization of the Finance Department, System and Reporting enhancements, and development of a Grants Administrative Directive as summarized below:

- *During the course of the last eight months 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 \$11,713,240 in deficit fund balances identified in grant projects. The majority of these balances occurred subsequent to October 1, 2003 as a result of ineffective top-level controls related to staff turnover and loss of historical and institutional knowledge. The uncollectible amounts will be incorporated into the City's annual budget process and funded over the next five years.*
- *In January 2006, changes in executive management within the Finance Department were made. This new executive management team has implemented a substantial reorganization of the Finance Department. The reorganization is focused on the realignment and redirection of resources based on functional areas of specialization, key business processes and SAP. Under this reorganization, highly specialized resources are dedicated to each of the major functional areas and significant emphasis has been placed on addressing staff turnover and the development and retention of key institutional knowledge. With respect to grants, financial reporting sections were created and include a section dedicated to capital projects and grants. These resources will not only perform reporting functions but represent dedicated resources to review financial performance and compliance, variance analysis, and performing highly technical work which will ensure that the appropriate top-level controls are implemented and maintained over the grants accounting process.*

The newly organized financial reporting section over grants and capital projects within the Finance Department is responsible for reviewing and addressing grant reporting, financial, and operational issues on a monthly basis with City Departments. The reorganization will be fully implemented as of May 21, 2007. In conjunction with the reorganization, grant management procedures are in the process of being developed in the form of an Administrative Directive to strengthen top-level controls and ensure that grant activity is recorded in the general ledger appropriately. Departmental training on the new procedures will also be implemented. The new Administrative Directive is schedule to be released in August 2007.

- *The Finance Department is in the process of evaluating improvements to the current accounting structure utilized to account for and report grant activity. Requirements for new reports are currently being analyzed in order to improve reporting of Balance Sheet and Income Statement accounts for individual grants. SAP is currently designed to account for balance sheet items (assets, liabilities and fund balance) at a fund level. The fund level is a combination of grants with similar accounting or funding characteristics. In the interim, supplemental schedules will be utilized to support a detailed accounting of the balance sheet accounts on a grant by grant basis. SAP's new Grants Management Module will also be explored as a possible solution and future implementation.*

Implementation Date: September 2008

*Responsible Person: Ben Gorzell, Jr., CPA
Director, Finance Department*

City of San Antonio, Texas
Schedule of Findings and Questioned Costs
Federal Grants
For the Fiscal Year Ended September 30, 2006

Finding 06-02 – Construction-in-Progress Close-Out and Recording

Controls Over Construction-in-Progress Close-Out and Recording

Type of Finding – Reportable Condition

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.

Questioned Cost

None

Condition

During the current year's audit, several material adjustments were identified involving construction-in-progress (CIP) transactions that were inappropriately recorded/classified in the financial statements.

Possible asserted cause and effect

The City's capital assets were tracked by the Finance Department's Capital Assets section, while the progress of assets under construction, completion and transferring of assets into service were determined and authorized by the department having the work performed. The City did not have an effective top-level control in place to review the overall progress of CIP projects to validate with the departments whether the projects were in service and should be reclassified from CIP, whether all costs were appropriately recorded in CIP, or whether the project was still under construction. The adjustments resulted in reclassifying \$445 million of CIP in governmental activities, expensing \$26 million of previously capitalized CIP, recording \$39 million of depreciation expense (\$30 million related to prior years), and capitalizing \$10 million of capital expenditures which were incorrectly expensed in prior years. For business-type activities, the City reclassified \$6 million of CIP in order to reconcile the general ledger to their CIP project detail.

Recommendation

We recommend that the City perform an annual review of all outstanding construction-in-progress projects to determine whether assets are in use and need to be depreciated. We additionally recommend that the City review project costs for proper recording. Furthermore, we recommend that the City reconcile CIP balances recorded in the general ledger to their sub ledger detail.

Views of responsible officials and Corrective Action Plan

The newly organized financial reporting section over grants and capital projects within the Finance Department are responsible for reviewing and addressing capital project reporting, financial, and operational issues on a monthly basis with City Departments. The reorganization was fully implemented as of May 21, 2007. In conjunction with the reorganization, capital project procedures are in the process of being developed in the form of an Administrative Directive to strengthen top-level controls and ensure that capital project activity is recorded in the general ledger appropriately. The Administrative Directive will address monthly and annual processes for City Departments to identify and communicate to the Finance Department completed capital projects. The

City of San Antonio, Texas
Schedule of Findings and Questioned Costs
Federal Grants
For the Fiscal Year Ended September 30, 2006

Finance Department will accordingly transfer the completed asset out of construction in progress and begin depreciating the asset. Departmental training on the new procedures will also be implemented. The new Administrative Directive is schedule to be released in August 2007.

Additionally, over the course of the last 8 months the Finance Department has been in the process of reviewing all capital project balances in an effort to complete and finalize older bond issuances and the associated capital projects they support. This effort is anticipated to be completed by August 2007 and will ensure that all completed capital projects are capitalized.

Implementation Date: August 2007

*Responsible Person: Ben Gorzell, Jr., CPA
Director, Finance Department*

Finding 06-03 – Compliance with Grant Reporting

Controls Over SEFA and SESA Preparation

Type of Finding – Reportable Condition

Criteria

Per the AICPA Audit Guide, *Governmental Auditing Standards and Circular A-133 Audits*, chapter 7, the schedule of expenditures of federal awards is to be presented fairly in all material respects in relation to the auditee's financial statements taken as a whole. The schedule of expenditures of federal awards reports the total expenditures for each federal program. The *State of Texas Single Audit Circular* requires an entity to follow *Governmental Auditing Standards* and *OMB Circular A-133* requirements to prepare and report on the schedule of expenditures of state awards.

| |
|--------------------------------|
| <u>Questioned Cost</u> None |
|--------------------------------|

Condition

As was noted in the prior year, the City's Finance Department experienced difficulty in preparing its Schedule of Expenditures of Federal Awards (SEFA) and its Schedule of Expenditures of State Awards (SESA). While significant progress was made in the current year as a result of the Finance Department's grants review and validation project, that project identified a previously unknown situation where grant expenses were being directly recorded into the capital projects fund rather than first being recorded in the categorical grants-in-aid fund.

Possible asserted cause and effect

The difficulty experienced in preparing the schedules of expenditures is due to inaccurate general ledger classifications or posting of transactions by grant operating departments. Further, we noted that grant projects are not timely closed out after their period end resulting in misclassification and presentation of expenditures between grant years. As a result, grant expenditures were underreported in the 2005 SEFA, which will require the 2005 single audit reports to be reissued.

City of San Antonio, Texas
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Recommendation

We recommend that the City continue to educate and train departments of the requirements to properly classify and post grant related expenditures in the general ledger and to timely close out project accounts. We additionally recommend that all grant related awards be accounted for or passed through a grant fund/funds to enable an entity-wide reconciliation to ensure the completeness of the City's SEFA and SESA.

Views of responsible officials and Corrective Action Plan

- *The requirement to pass all grant funds supporting capital project activity through a designated grant fund currently exists. However, the top level controls were weakened as a result of staff turnover and a loss of historical knowledge. In order to address this issue the following actions have occurred or are in the process of being implemented:*
- *In January 2006, changes in executive management within the Finance Department were made. This new executive management team has implemented a substantial reorganization of the Finance Department. The reorganization is focused on the realignment and redirection of resources based on functional areas of specialization, key business processes and SAP. Under this reorganization, highly specialized resources are dedicated to each of the major functional areas and significant emphasis has been placed on addressing staff turnover and the development and retention of key institutional knowledge. With respect to grants, financial reporting sections were created and include a section dedicated to capital projects and grants. These resources will not only perform reporting functions but represent dedicated resources to review financial performance and compliance, variance analysis, and performing highly technical work which will ensure that the appropriate top-level controls are implemented and maintained over the grants accounting process.*

The newly organized financial reporting section over grants and capital projects within the Finance Department are responsible for reviewing and addressing grant reporting, financial, and operational issues on a monthly basis with City Departments. The reorganization was fully implemented as of May 21, 2007. In conjunction with the reorganization, grant management procedures are in the process of being developed in the form of an Administrative Directive to strengthen top-level controls and ensure that grant activity is recorded in the general ledger appropriately. Departmental training on the new procedures will also be implemented. The new Administrative Directive is schedule to be released in August 2007.

Implementation Date: September 2007

*Responsible Person: Ben Gorzell, Jr., CPA
Director, Finance Department*

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Finding 06-04 – Segregation of Duties

Controls Over Segregation of Duties

Type of Finding – Reportable Condition

Criteria

In order for controls to mitigate the potential of fraud and abuse, certain job functions are required to be performed by separate personnel to ensure proper checks and balances. If job functions along the same process data flow are performed by one person, it is easier to potentially commit fraud and not be caught. As a result, either segregating duties or having an additional reviewer is required to mitigate the potential of fraud.

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| <u>Questioned Cost</u> None |
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Condition

The City implemented SAP on October 1, 2004 to replace FAMIS, their legacy general ledger and financial accounting/reporting system. During the implementation of SAP the City created user roles and evaluated and assigned those roles to personnel based on departmental management authorizations. Some of management's authorizations created Segregation of Duties (SOD) issues, which allows for potential fraud and abuse. To mitigate that risk, manual controls were implemented to address incompatible computer authorizations.

Since SAP's implementation, personnel have changed job positions, titles and responsibilities, but there have not been periodic assessments of user access and roles to determine whether the role change created new SOD issues. Furthermore, the mitigating controls identified to assist in reducing potential fraud or abuse were not formally documented nor tested to ensure their continued design and operating effectiveness.

Possible asserted cause and effect

Segregation of duties updates in the SAP system were not updated on a regular basis as the City had manual controls in place and multiple levels of review and approval. Personnel may have excessive or unnecessary user access which allows for potential fraud and abuse.

Recommendation

We recommend that the City perform SOD role and user access reviews to identify SOD conflicts or excessive access and implement internal controls to mitigate those issues as soon as possible. To facilitate the resolution of noted conflicts at the user level, individual departments will need to provide the necessary knowledge to identify existing mitigating controls, create additional mitigating controls, when needed, or modify user authorizations.

Furthermore, to ensure that future conflicts do not arise, the City should: a) incorporate SOD checks into the security request process, b) conduct periodic checks to monitor for SOD violations, c) conduct periodic checks to monitor mitigating manual controls and d) require approvals for mitigating controls or exceptions applied toward SOD identified issues.

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Views of responsible officials and Corrective Action Plan

The City's SAP system was placed into production on October 1, 2004. In preparation for the implementation, roles were designed in order to control conflicts and issues associated with segregation of duties. A Segregation of Duties (SOD) tool provided by the systems integrator was provided to define and detect conflicts between roles and the individuals possessing the roles. Mitigating controls were evaluated and determined to be acceptable in instances where conflicts were identified. Since the implementation date of SAP, personnel have changed job positions, relocated to different departments and additional roles have been provided or removed from personnel. Although mitigating controls exist they have not been formally documented.

In order to further mitigate conflicts arising from segregation of duties, the Finance Department and Information Technology Services Department are in the process of developing plans to improve upon existing segregation of duties. The plans include the evaluation and possible implementation of a SOD software tool to monitor and facilitate the management of SAP roles, provision and removal of SAP Roles, and identify potential conflicts between roles and positions. In addition, either internal or external resources will be utilized to analyze the design of existing roles, identify potential conflicts, recommend improvements to current business processes and document mitigating controls to ensure that future conflicts do not arise.

Implementation Date: September 2008

Responsible Person: Ben Gorzell, Jr., CPA
Director, Finance Department

Richard Varn
Interim Chief Information Officer, City Manager's Office

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 06-05 – Allowable Costs/Cost Principles

CFDA #12.600 – Community Economic Adjustment

Agency: U.S. Department of Defense

Pass through entity: N/A

Award Year: October 1, 2005 to September 30, 2006

Award Number: 40000373

Type of Finding – Material Weakness and Material Noncompliance

Criteria

The Code of Federal Regulations, Title 24, Subtitle A (4-1-05 Edition), Section 92.207 describes allowable administrative costs such as salaries, wages and related costs of the participating jurisdiction's staff. In charging costs to this category the participating jurisdiction may include the entire salary, wages, and related costs allocable to the program of each person whose primary responsibilities with regard to the program involves program administration assignments.

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| <u>Questioned Cost</u> |
| \$10,884 |

City of San Antonio, Texas
Schedule of Findings and Questioned Costs
Federal Grants
For the Fiscal Year Ended September 30, 2006

Condition

The following was noted during review of expenditures charged to the grant during the 2006 fiscal year audit:

- In 8 of 40 expenditures reviewed, the employees' salary included holiday pay that was charged 100% to the grant, even though the employee did not charge 100% of their time to the grant in FY2006. Salary costs tested were \$22,823, of which \$10,066 had holiday pay included. The granting agency specifically disallowed holiday pay costs in FY2006 of \$4,415.
- In 6 of 40 expenditures reviewed, the employees' salary included taken annual leave that was charged 100% to the grant, even though the employee did not charge 100% of their time to the grant in FY2006. Salary costs tested were \$22,823, of which \$7,181 had annual leave included. The granting agency specifically disallowed annual leave costs in FY2006 of \$2,949.
- In 2 of 40 expenditures reviewed, the employees' fringe benefits included annual leave buyback that was charged 100% to the grant, even though the employee did not charge 100% of their time to the grant in FY2006. Fringe benefit costs tested were \$31,644, of which \$1,406 was annual leave buyback. The granting agency included the annual leave buyback costs within the disallowed annual leave costs, noted above.
- In 7 of 40 expenditures reviewed, the employees' fringe benefits included FICA that was charged 100% to the grant, even though the employee did not charge 100% of their time to the grant in FY2006. Fringe benefits tested were \$31,644, of which \$663 was FICA. The granting agency included FICA fringe benefits within the disallowed costs for holiday and leave pay, noted above.
- In 2 of 40 expenditures reviewed, the employees' wages were not charged to the grant in accordance with the hours worked per the timesheet. The salary misallocated for these samples totaled \$198.
- In 1 of 40 expenditures reviewed, the employee incurred overtime of \$233 that was not allowed per the grant. The granting agency specifically disallowed overtime payroll costs in FY2006 of \$358.
- In 1 of 40 expenditures reviewed, fringe benefits included group health insurance expenses that were charged to the grant for \$29,575. Actual calculated health insurance expenses for FY06 were \$26,611, resulting in the over charging of \$2,964 to the grant.

Wages, including holiday and annual leave, charged to the grant in FY06 were \$152,422. Fringe benefits, including FICA and group health, charged to the grant in FY2006 were \$66,433. Total expenditures charged in FY06 were \$336,695.

Possible asserted cause and effect

Non-base salary and related fringe benefits are not systematically set up to allocate to different grant programs according to the percent of time worked. Salaries and related fringe benefits are overstated in the schedule of expenditures of federal awards by the granting agency's disallowed holiday, annual leave, and overtime costs of \$4,415, \$2,949 and \$358, respectively, as well as the salary misallocation of \$198 and health insurance over charging of \$2,964.

Recommendation

We recommend that all employee wages and related fringe benefits be allocated and charged to the grant in accordance with actual hours worked. We further recommend that the City implement a control to review all

City of San Antonio, Texas
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salary and fringe benefit expenditures for employees and make necessary journal entries to allocate expenditures as needed. Additionally, we recommend that the City review budget requirements before incurring/expensing overtime to the grant.

Views of responsible officials and Corrective Action Plan

Currently, (a) holiday pay, (b) annual leave expenditures, (c) personal leave buyback expenditures and (d) FICA expenditures cannot be systematically apportioned and the San Antonio Metropolitan Health District (SAMHD) is working with SAP Production Support to explore methods to "automatically" allocate these expenditures to the different grant programs according to the percent of time worked. Until this can be accomplished, the SAMHD will make manual journal entries to correctly allocate these expenditures to the different grant programs in proportion to the percent of time the employees worked. The SAMHD executed journal entries in fiscal year 2007 to clear these questioned costs.

A new procedure for reviewing the City's payroll report for comparison with the employee timesheets will be instituted immediately. This procedure will be performed by the Program Manager, the Fiscal Officer, and the Fiscal Planning Manager of the SAMHD.

The SAMHD understands that Overtime pay is not an allowable expenditure. Therefore, employees will not be allowed to work overtime unless prior approval has been granted by the grantor.

The Group Health Insurance charges will be assessed according to the number of hours worked by each employee and approved by the Department of Defense.

Implementation Date: August 2007

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

Finding 06-06 – Equipment & Real Property Management

CFDA #12.600 – Community Economic Adjustment

Agency: U.S. Department of Defense

Pass through entity: N/A

Award year: October 1, 2005 to September 30, 2006

Award number: 40000373

Type of Finding: Material Weakness and Material Noncompliance

Criteria

The Code of Federal Regulations Title 32, Volume 1 (32 CFR 33.32(d)), states that the procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirement:

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| <u>Questioned Cost</u> None |
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City of San Antonio, Texas
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- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition

The following was noted during review of equipment management testing during the 2006 fiscal year audit:

- In 30 of 30 equipment items reviewed during the physical observation, property records required to be maintained per regulations and City policy were not present. We were able to observe the equipment items during the physical inspection, using the information maintained in the inventory log, noting the equipment was properly safeguarded.

Total equipment items maintained on the City's inventory log and tracked were 164 items. All of these items were missing at least one of the minimum property record requirements.

Possible asserted cause and effect

The department obtained donated equipment items from the granting agency without full disclosure to record the required fields in the inventory log. Additionally, the department was unaware of all of the required fields to keep and maintain in the log. As a result, the inventory log does not include all the required data for each asset.

Recommendation

We recommend that the City document required fields in the inventory log of equipment purchased by grant funds in order to be in compliance with regulations. We further recommend that the City include as a control during the inventory observation that the log is maintained in accordance with federal and City policies.

Views of responsible officials and Corrective Action Plan

We agree with this finding and we will complete the required field to the best of our ability as many of these items were donated by the USAF. In addition, many of these items are obsolete.

Implementation Date: October 2007

*Responsible Person: Dr. Fernando Guerra
Director, San Antonio Metropolitan Health District*

Finding 06-07 – Reporting

CFDA #12.600 – Community Economic Adjustment

Agency: U.S. Department of Defense

Pass through entity: N/A

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Award years: October 1, 2004 to September 30, 2005 and October 1, 2005 to September 30, 2006

Award number: 40000373

Type of Finding - Noncompliance

Criteria

The Code of Federal Regulation Title 32, Volumn 1 (32 CFR 33.41(b)) states that grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction projects and for construction projects when required in accordance with Sec. 33.41(e) (2) (iii).

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| <u>Questioned Cost</u> None |
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Condition

The following exception was noted during review of reports issued during the 2006 fiscal year audit:

- The City did not submit the annual Standard Form 269 report.

Possible asserted cause and effect

As the City issued monthly reimbursement request reports, the City did not issue an annual report during FY2006 due to a misunderstanding in the reporting requirements. The granting agency does not have a consolidated annual assessment of the City's expenditures.

Recommendation

We recommend that the City submit annual reports within 90 days of fiscal year end. We additionally recommend that the City retain all supporting documentation, excel files, etc. used to generate the report to validate its completeness and accuracy.

Views of responsible officials and Corrective Action Plan

The SAMHD agrees with this finding and have already taken measures to implement a process to review and reconcile annual expenditures in preparation for submitting the SF-269 as required. In addition, all documentation will be kept on file.

Implementation Date: October 2007

*Responsible Person: Dr. Fernando Guerra
Director, San Antonio Metropolitan Health District*

Finding 06-08 -- Special Tests -- Separate Account

CFDA #12.600 -- Community Economic Adjustment

Agency: U.S. Department of Defense

Pass through entity: N/A

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Award year: October 1, 2005 to September 30, 2006

Award number: 40000373

Type of Finding: Noncompliance

Criteria

In accordance with the cooperative agreement and discussions held with the granting agency AFRPA (Department of the Air Force Air Force Real Property Agency), AFRPA is requesting that program funding be managed in a separate account.

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| <u>Questioned Cost</u> |
| None |

Condition

The following exception was noted during review of special tests during the 2006 fiscal year audit:

- The City does not have a separate account as required by the granting agency due to a misunderstanding in the requirement.

Possible asserted cause and effect

The City maintains equity in a pooled cash account and created separate subfunds by project and fiscal year within the general ledger account for this grant program thereby enabling them to track grant cash and interest. The City misunderstood the compliance requirement of a separate fund as they are effectively able to track the grant's activities through the subfunds.

Recommendation

We recommend that the City open and track grant funds in a separate bank account specifically titled for the grant. We additionally recommend that the City transfer any remaining cash and related transactions from those grant subfunds into the newly created bank account in order to track and maintain grant funds in one separate account.

Views of responsible officials and Corrective Action Plan

The City did not create a separate bank account for this grant, but the City does maintain equity in pooled cash accounts. Further, the City accounts for this grant at the lowest level possible, by creating a separate subfund and project to account for items related to this program only, thereby enabling the City to account for all grant cash and interest.

The City will prepare a written request for approval from the granting agency to continue this type of funds management.

Implementation Date: October 2007

*Responsible Person: Dr. Fernando Guerra
Director, San Antonio Metropolitan Health District*

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Finding 06-09 – Allowable Costs/ Cost Principles

CFDA #14.218 – Community Development Block Grants

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

Pass through entity: N/A

Award Years: October 1, 2004 to September 30, 2005 and October 1, 2005 to September 30, 2006

Award Numbers: B-04-MC-48-0508 and B-05-MC-48-0508

Type of Finding – Reportable Condition and Noncompliance

Criteria

In accordance with OMB Circular A-87, Attachment B, Section 8H, for employees who are expected to work solely on a single Federal award, charges for their salaries and wages will be supported by periodic certification 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. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:

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| <u>Questioned Cost</u> \$552,802 |
|-------------------------------------|

- Reflect an after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Are prepared at least monthly and coincide with the pay period,
- Are signed by the employee, and
- Budget estimates before the services are performed do not qualify as support for charges to Federal awards but may be used for interim purposes provided that at least quarterly, comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the Federal program. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than ten percent.

Condition

The following exception was noted in an internal audit of expenditures charged by San Antonio Development Authority (SADA), while it was a subrecipient, of the grant during the 2006 fiscal year:

- Of the SADA expenditures reviewed, neither time and effort reports nor certifications were available to justify employee time spent on CDBG projects. Total SADA salaries noted were \$552,802. SADA is a discretely presented component unit of the City. No exceptions were noted from any City departments receiving CDBG funds.

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Possible asserted cause and effect

SADA staff was mistaken in their understanding of recording and tracking time and effort spent on grant related projects, resulting in the employees being paid 100% by grant funds even though they did not work 100% on the grant. Salaries charged by SADA may not be for actual hours worked on the program, resulting in charges to the federal government for time not spent working on federal programs. This could result in the City having to repay the federal government for these charges and payment of interest on these funds.

Recommendation

We recommend that management require all employees working on CDBG projects to complete either time and effort reports or semi-annual certifications.

Views of responsible officials and Corrective Action Plan

The San Antonio Development Agency has been disbanded by City Council and all program services will be delivered by the City.

Implementation Date: October 19, 2006

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

Finding 06-10 – Program Income

CFDA #14.218 – Community Development Block Grants

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

Pass through entity: N/A

Award years: October 1, 2004 to September 30, 2005 and October 1, 2005 to September 30, 2006

Award numbers: : B-04-MC-48-0508 and B-05-MC-48-0508

Type of Finding – Reportable Condition and Noncompliance

Criteria

Per the Code of Federal Regulations Title 24, Volume 1 (24 CFR 85.25(b) & (c)) program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. If authorized by federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. 24 CFR 85.25 (g) indicates that program income shall be deducted from outlays which may be both Federal and non-Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs.

Questioned Cost

\$498,445

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The requirements for program income are found in the A-102 Common Rule (§____.21 (payment) and §____.25), OMB Circular A-110 (§____.2 (program income definition), §____.22 (payment), and §____.24), federal awarding agency laws, program regulations, and the provisions of the contract or grant agreements pertaining to the program.

Condition

The following was noted during review of program income received during the 2006 fiscal year audit:

- Out of 30 program income samples selected, 3 related to program income received by SADA. In all 3 of the SADA samples, program income was utilized to pay for SADA's regular operating expenses, which are not allowable costs. SADA is a discretely presented component unit of the City. No exceptions were noted from any City departments receiving CDBG funds.

SADA additionally did not obtain prior approval from the City before utilizing program income funding as required by the City's contract. Total program income received by SADA in FY2006 was \$498,445.

Possible asserted cause and effect

SADA staff was mistaken in their understanding of expenditures allowed to be paid with program income funding from the grant. Improper use of program income could result in a decrease in future funding or the City may be required to repay the funds to the Federal Government.

Recommendation

We recommend that the City review and approve program income disbursements on a regular basis throughout the year to ensure that program income is expended in accordance with grant requirements.

Views of responsible officials and Corrective Action Plan

The San Antonio Development Agency has not contracted to undertake activities that would produce program income since 2002. All operating funds for the San Antonio Development Agency were included in the City's 20% planning and administration capacity allowed by HUD and funds received for the Alamodome/Historic Gardens development would not have resulted in program income. Additionally, all program income generating activities were transferred to the City of San Antonio's Neighborhood Action/ Housing and Neighborhood Services Department in February 2001. Any non-CDBG generated revenues that may have been obtained by the San Antonio Development Agency do not meet the criteria of program income and should not be accounted for as program income.

Implementation Date: October 2007

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

Auditors' response to responsible official's disagreement with finding

The compilation report of the San Antonio Development Agency's financial statements for fiscal year 2006, prepared by other external auditors, indicated revenues recorded by the San Antonio Development Agency that primarily related to the sale of CDBG funded properties. These parcel sales meet the definition of program

City of San Antonio, Texas
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income per 24 CFR 85.25(b) & (c). The City's Internal Audit department, in a report issued December, 21, 2006, also noted that program income received by the San Antonio Development Agency was used to fund regular operations without prior City approval.

Finding 06-11 – Matching, Earmarking and Level of Effort

CFDA #14.218 – Community Development Block Grants

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

Pass through entity: N/A

Award years: October 1, 2003 to September 30, 2004, October 1, 2004 to September 30, 2005 and October 1, 2005 to September 30, 2006

Award numbers: B-03-MC-48-0508, B-04-MC-48-0508 and B-05-MC-48-0508

Type of Finding – Reportable Condition and Noncompliance

Criteria

Per 24 CFR 570.200 (g), "No more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs..." Additionally, not less than 70 percent of the funds must be used over a period of up to three years, as specified in the grantee certification, for activities that benefit low- and moderate-income persons (24 CFR section 570.200 (a) (3)).

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| <u>Questioned Cost</u> Undeterminable |
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Condition

The following was noted during review of earmarking requirements made during the 2006 fiscal year audit:

- Per review of the CDBG HUD report C04PR26, the general ledger documentation did not support the balances included in the report. The C04PR26 report is utilized to determine if the City met HUD's earmarking requirements for the CDBG grant. The report's total expenditures of \$18,229,571 were \$340,284 less than the general ledger.

Possible asserted cause and effect

The general ledger was changing due to adjustments and post-closing entries resulting in variances from the original general ledger extraction utilized to generate the report and the final general ledger balances provided to the auditors to validate the report. As a result, there was no clear reconciliation between the expenditures in the report and in the general ledger. Requirements for earmarking were met according to the data in the report, however earmarking cannot be recalculated and questioned costs are undeterminable due to the total expenditures variances.

Recommendation

We recommend that the City personnel thoroughly review supporting documentation used to prepare the CDBG C04PR26 Report to ensure amounts reported are accurate.

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Views of responsible officials and Corrective Action Plan

The Grants Monitoring and Administration Department will perform monthly reconciliations to ensure agreement between HUD's IDIS and the City's general ledger.

Implementation Date: August 1, 2007

Responsible Person: Andrew Cameron
Director, Grants Monitoring and Administration

Finding 06-12 – Reporting

CFDA #14.218 – Community Development Block Grants

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

Pass through entity: N/A

Award years: October 1, 2003 through September 30, 2004, October 1, 2004 through September 30, 2005 and October 1, 2005 through September 30, 2006

Award numbers: B-03-MC-48-0508, B-04-MC-48-0508 and B-05-MC-48-0508

Type of Finding – Material Weakness and Material Noncompliance

Criteria

The Code of Federal Regulations Title 24, Volume 1 (24 CFR 85.41 (c)) indicates that for grants paid by letter of credit, Treasury check advances or electronic transfer of funds, the grantee will submit the Standard Form 272, Federal Cash Transactions Report. Grantees must submit the report no later than 15 working days following the end of each quarter. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency.

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| Questioned Cost None |
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The financial reports should be supported by applicable accounting records and any additional data elements comprising adjustments between such record and the reports should be supported by worksheets or other documentation linking reports to the data.

Condition

The following was noted during review of reports issued during the 2006 fiscal year audit:

- In 2 of 2 annual HUD software Integrated Disbursement and Information System (IDIS) reports selected, the City's reported expenditures did not agree to supporting documentation recorded in the general ledger by over \$1,900,000. The City does not regularly perform reconciliations between IDIS and SAP general ledger throughout the year.
- In 2 of 4 quarterly SF-272 reports selected, the City had to revise the reports and resubmit them due to variances between the reported expenditures and supporting documentation recorded in the general ledger. The City did not reconcile or resubmit the required reports within the designated timeframe

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obligated per their award. The reports were resubmitted 97 and 2 days after the required submission date, respectively.

Possible asserted cause and effect

The responsible department did not have sufficient personnel to assist in preparing the reports in a timely manner. Furthermore, the general ledger was changing due to adjustments and post-closing entries resulting in variances from the original general ledger extraction utilized to generate the report and the final general ledger balances provided to the auditors to validate the report. As a result, there was no clear reconciliation between the expenditures in the report and in the general ledger. Since the IDIS report detailed less expenditures than the general ledger, no questioned costs were determined to exist.

Recommendation

We recommend that the City ensures reports are reconciled to the City's general ledger and are submitted in accordance with contract timeframes. We further recommend that the City put in place more frequent reconciliation reviews throughout the year to reduce the likelihood of variances.

Views of responsible officials and Corrective Action Plan

The Finance Department's Grants Section has recently become fully staffed and has a position that is funded from CDBG. This position is dedicated to ensure compliance with all financial reporting requirements of the CDBG and HOME programs. The Department of Grants Monitoring and Administration will work closely with the Finance Department to ensure that IDIS reports are reconciled with the City's general ledger.

Implementation Date: October 1, 2007

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

Finding 06-13 – Subrecipient Monitoring

CFDA #14.218 – Community Development Block Grants

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

Pass through entity: N/A

Award years: October 1, 2003 to September 30, 2004, October 1, 2004 to September 30, 2005 and October 1, 2005 to September 30, 2006

Award numbers: B-03-MC-48-0508, B-04-MC-48-0508 and B-05-MC-48-0508

Type of Finding – Material Weakness and Noncompliance

Criteria

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

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| <u>Questioned Cost</u> None |
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identify to the subrecipient the Federal award information and applicable compliance requirements, obtain certifications from subrecipients stating they are not suspended or debarred, manage the day-to-day operations of grant and subgrant supported activities by monitoring subgrants to assure compliance with applicable Federal requirements, and ensure required A-133 audits are performed and the subrecipient takes prompt corrective action on any audit findings.

Condition

The following was noted during review of subrecipient expenditures and contracts issued during the 2006 fiscal year audit:

- In 1 of 10 subrecipient contracts reviewed, there was no evidence of supervisory review or approval on the subrecipient's monitoring checklist noted in the file.
- In 3 of 10 subrecipient contracts reviewed, there was no evidence of supervisory review or approval on the subrecipient's performance reports.

Total expenditures incurred by the City's subrecipients during fiscal year 2006 were \$2,260,870.

Possible asserted cause and effect

The causes of the conditions noted above were due to the lack of formal written policy and procedures and lack of revisions on the subrecipient's performance reports. Staff was provided verbal rather than documented instructions. If subrecipients are not monitored as required by Federal regulations, subrecipients could be expending federal funds for unallowable activities. Additionally, if reports submitted by subrecipients are not reviewed there is a possibility that the subrecipients are not meeting performance goals and program objectives resulting in improper reimbursement for expenditures.

Recommendation

We recommend that the Department of Housing and Community Development review its monitoring procedures and the compliance requirements stipulated in *OMB Circular A-133 Compliance Supplement* and ensure that controls regarding during-the-award monitoring are established and in place in order to ensure that the City is in compliance with related requirements. We additionally recommend that the City establish a checklist of annual documents, reports, etc. expected of the subrecipients and monitor status of checklists to communicate missing items timely to subrecipients.

Views of responsible officials and Corrective Action Plan

All contracts are reviewed by the Program Analysts and the Programs Coordinator prior to being forwarded to the Department Director for execution. Program Analysts and the Programs Coordinator do not have the authority to approve contracts. The signature of the Department Director not only executes the contract, but is also indicative of approval of the contract.

The performance reports are prepared by the subrecipients and submitted to HCD/GMA. The performance reports are reviewed by Program Analysts for compliance and project timeliness since the Analysts are the ones responsible for the day-to-day contact and contract administration/management. As such, the Program Analysts have knowledge of subrecipient activities and can readily identify issues and/or areas of concern. A review of the current performance reports indicate that the Subrecipients are not certifying that the progress being reported is "true and correct". HCD/GMA will revise the performance reports forms to include certification language that must be signed by the Director of the subrecipient agency. Additionally, HCD/GMA will no longer require the Programs Coordinator's (Supervisor) signature due to the fact that the true control is at the Programs Analyst level.

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Implementation Date: October 1, 2007

Responsible Person: Andrew Cameron
Director, Grants Monitoring and Administration

Auditors' response to responsible official's disagreement with finding

The City response is accurate in that the Department Director executed and approved the subrecipient's subgrant contract as noted by his approval. However, the finding noted above related to the additional review and approval by supervisors of the subrecipient's on-going monitoring activities as tracked by the subrecipient monitoring checklist. For the subrecipient sampled the checklist did not contain sufficient evidence to validate monitoring reviews were being performed.

Finding 06-14 – Allowable Costs/ Cost Principles

CFDA #14.235 – Supportive Housing Program

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

Pass through entity: N/A

Award year: November 1, 2003 to October 31, 2006

Award number: TX 59 B200 002

Type of Finding – Material Weakness and Noncompliance

Criteria

The Code of Federal Regulations, Title 24, Subtitle A (4-1- Edition), Section 92.207 describes allowable administrative costs such as salaries, wages and related costs of the participating jurisdiction's staff. In charging costs to this category the participating jurisdiction may include the entire salary, wages, and related costs allocable to the program of each person whose primary responsibilities with regard to the program involves program administration assignments.

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| <u>Questioned Cost</u> |
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| \$34,051 |
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Condition

The following was noted during review of expenditures charged to the grant during the 2006 fiscal year audit:

- In 7 of 40 expenditures reviewed, supervisor review and certification of employee time charged to the grant was not completed until March 2007 for time incurred between October and December 2005. Payroll charges were allowable.
- In 2 of 40 expenditures reviewed, the employees' wages of \$10,122 were inaccurately charged to this grant. Wages and related fringe benefits inaccurately included in the SEFA at September 30, 2006 for these employees were \$34,051.

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Total allowable costs sampled were \$36,136 of which \$31,049 related to salaries and fringe benefits. Total direct costs expensed in FY2006 were \$425,725 of which \$353,746 related to salaries and fringe benefits.

Possible asserted cause and effect

Turnover in supervisory staff resulted in delays in signing of certifications, which were subsequently elevated to the Assistant Director for resolution. The City inaccurately charged expenditures to the grant that were not allowed. Lack of proper documentation to support Federal expenditures could result in the City being required to reimbursement the Federal government or substitute in-kind services or charges.

Recommendation

We recommend that payroll certifications be reviewed in a more timely manner and that payroll expenditures posted to the grant be reviewed and reconciled to program personnel timesheets/certifications to ensure valid expenditures are charged to the grant.

Views of responsible officials and Corrective Action Plan

The Department of Community Initiatives (DCI) will ensure that the department directive regarding time and effort will be adhered to. The Quality Assurance division, within DCI, will continue to randomly review time and effort certifications to ensure compliance. For the two expenditures, journal entries were posted during fiscal year 2007 to appropriately reflect allowable payroll expenditures.

Implementation Date: October 1, 2007

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

Finding 06-15 – Cash Management

CFDA #14.235 – Supportive Housing Program

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

Pass through entity: N/A

Award years: June 1, 2005 to May 31, 2006, July 1, 2005 to June 30, 2006, August 1, 2004 to July 31, 2006, September 1, 2005 to August 31, 2006, January 1, 2006 to December 31, 2006 and June 1, 2006 to May 31, 2007

Award numbers: TX 59 B400 012R, TX 59 B400 006R, TX 59 B400 010R, TX 59 B400 013R, TX 59 B400 019R, TX 59 B400 014R, TX 59 B400 008R, TX 59 B400 017R, TX 59 B400 005R, TX 59 B400 003R, TX 59 B400 020R, TX 59 B300 007R, TX 59 B400 013R, TX 59 B400 017R and TX 59 B400 018R

Type of Finding – Material Weakness

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Criteria

The Code of Federal Regulations Title 24, Volume 1 (24 CFR 85.20 (b)) indicates that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

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| <u>Questioned Cost</u> None |
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Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the awarding agency. Up to \$100 per year may be kept for administrative expenses.

Condition

The following was noted during review of the cash management draw downs requested for reimbursement during the 2006 fiscal year audit:

- In 40 of 40 draw down reports selected, evidence of DCI department management review and approval did not exist. Total cash draws during FY06 were \$4,490,538. Reimbursement requests sampled were valid expenditures paid prior to request.

Possible asserted cause and effect

A lack of management review and approval of cash reimbursement requests within DCI. Without adequate review and approval of draw requests, the City could be drawing down the incorrect amount of funds.

Recommendation

We recommend that the City send all reports, excel files, etc. used to determine cash draws to DCI department management for review and approval as indicated by their signature.

Views of responsible officials and Corrective Action Plan

Effective May 1, 2007, DCI management reviews and approves, with signature, all documentation used to determine cash draws.

Implementation Date: May 1, 2007

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

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Finding 06-16 – Subrecipient Monitoring

CFDA #14.235 – Supportive Housing Program

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

Pass through entity: N/A

Award years: July 1, 2006 to June 30, 2007, September 1, 2003 to August 31, 2006, June 1, 2003 to May 31, 2006, January 1, 2006 to December 31, 2006, September 1, 2005 to August 31, 2006, July 1, 2003 to June 30, 2006, June 1, 2006 to May 31, 2007, August 1, 2004 to July 31, 2006, July 1, 2005 to June 30, 2006, June 1 2005 to May 31, 2006 and September 1, 2004 to August 31, 2006

Award numbers: TX 59 B500 012R, TX 59 B200 006R, TX 59 B200 005R, TX 59 B400 003R, TX 59 B400 004R, TX 59 B200 004R, TX 59 B300 004R, TX 59 B300 007R, TX 59 B400 013R, TX 59 B400 017R, TX 59 B400 018R, TX 59 B400 014R, TX 59 B300 005R, TX 59 B400 009R, TX 59 B400 010R

Type of Finding – Material Weakness and Material Noncompliance

Criteria

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, obtain certifications from subrecipients stating they are not suspended or debarred, manage the day-to-day operations of grant and subgrant supported activities by monitoring subgrants to assure compliance with applicable Federal requirements, and ensure required A-133 audits are performed and the subrecipient takes prompt corrective action on any audit findings.

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| <u>Questioned Cost</u> None |
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Condition

The following was noted during review of subrecipient expenditures and contracts issued during the 2006 fiscal year audit:

- In 15 of 15 subrecipient contracts reviewed, the City did not complete various monitoring documents including contract monitoring reports, program performance reviews and end of contract reviews to ensure the Federal awards were administered in compliance with Federal requirements and achieved performance goals were attained.
- In 14 of 15 subrecipient contracts reviewed, the fiscal system checklists were not signed by the Fiscal Planning Manager indicating his authorization.
- In 5 of 15 subrecipient contracts reviewed, the contract was missing the CFDA number of the passed-through funds.
- In 1 of 15 subrecipient contracts reviewed, the City did not adequately follow up or sanction the subrecipient for failure to respond to the City's request to schedule a fiscal monitoring visit, nor did the City complete a monitoring review which includes completing the Fiscal System Checklist.

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Possible asserted cause and effect

The cause of these conditions was due to delays in filling vacancies or personnel who perform these duties. If subrecipients are not monitored as required by Federal regulations, subrecipients could be expending federal funds for unallowable activities. Additionally, if reports submitted by subrecipients are not reviewed there is a possibility that the subrecipients are not meeting performance goals and program objectives resulting in improper reimbursement for expenditures. Additionally, without a proper contract with the subrecipient the City may be reimbursing ineligible subrecipients.

Recommendation

We recommend that the Department of Community Initiatives review its monitoring procedures and the compliance requirements stipulated in *OMB Circular A-133 Compliance Supplement* and ensure that controls regarding during-the-award monitoring are established and in place in order to ensure that the City is in compliance with related requirements. We additionally recommend that the City continue to utilize and have reviewed/approve the checklist of annual documents, reports, etc. expected of the subrecipients and monitor status of checklists to communicate missing items timely to subrecipients. We further recommend that the City implement a standardized contract that includes all required communications including the CFDA number.

Views of responsible officials and Corrective Action Plan

DCI will ensure that monitoring procedures set forth in Department Directive 30 are adhered to. The Fiscal Planning Manager subsequently signed the fiscal systems checklists sampled during the audit period (after year-end). Future contracts will be reviewed to ensure CFDA numbers are appropriately recorded. DCI will strengthen monitoring procedures to address agency non-compliance.

Implementation Date: October 1, 2007

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

Finding 06-17 – Matching, Earmarking and Level of Effort

CFDA #14.239 – HOME Investment Partnerships Program

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

Pass through entity: N/A

Award year: October 1, 2005 to September 30, 2006

Award number: M-05-MC-48-0508

Type of Finding – Reportable Condition and Noncompliance

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Criteria

Per the Code of Federal Regulations, "Participating jurisdictions are required to maintain records, including individual project records and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project. Matching information is provided on the *HOME Match Report* (HUD-40107-A) (24 CFR Sections 92.218 through 92.220, 92.222, and 92.508).

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| <u>Questioned Cost</u> None |
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Condition

The following was noted during review of matching requirements made during the 2006 fiscal year audit:

- In 1 of 1 HOME Match Report reviewed, the matching contribution amount reported to HUD that was transcribed incorrectly in the prior year and carried over as excess contributions/matching was not corrected in the current year's reports resulting in the 2006 carryover excess matching being overstated by \$200,000.

Possible asserted cause and effect

The cause of the overstatement was a transcription error on the HOME Match Report submitted to HUD in FY2005 that was not corrected in the reports submitted in FY2006. By not reviewing and correcting reports submitted the grantor, the City is susceptible to non-compliance with Federal regulations which could result in loss of future funding.

Recommendation

We recommend that the City personnel thoroughly review supporting documentation used to prepare the HOME Match Report to ensure amounts reported are accurate.

Views of responsible officials and Corrective Action Plan

The cause of the overstatement was a transcription error on the HOME Match Report submitted to HUD. Therefore, the Grants Monitoring and Administration Department will thoroughly review the HOME Match Report and reconcile it to the supporting documentation prior to submission of the HOME Match Report. This transcription error will be corrected.

Implementation Date: October 1, 2007

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

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Finding 06-18 – Subrecipient Monitoring

CFDA #14.239 – HOME Investment Partnerships Program

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

Pass through entity: N/A

Award year: October 1, 2005 to September 30, 2006

Award number: M-05-MC-48-0508

Type of Finding – Material Weakness and Material Noncompliance

Criteria

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, obtain certifications from subrecipients stating they are not suspended or debarred, manage the day-to-day operations of grant and subgrant supported activities by monitoring subgrants to assure compliance with applicable Federal requirements, and ensure required A-133 audits are performed and the subrecipient takes prompt corrective action on any audit findings.

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| <u>Questioned Cost</u> None |
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Condition

The following was noted during review of subrecipient expenditures and contracts issued during the 2006 fiscal year audit:

- In 1 of 29 subrecipient contracts reviewed, the performance report required to be signed by HCD analyst and HCD Coordinator was only signed by the analyst.
- In 3 of 29 subrecipient contracts reviewed, the formal monitoring checklist was not used to complete monitoring; only “short forms” were used to complete on-site monitoring visits.
- In 1 of 29 subrecipient contracts reviewed, the monitoring review was signed on January 23, 2006 for a review performed on November 8, 2004. No formal monitoring appeared to have been performed in FY2006.
- In 1 of 29 subrecipient contracts reviewed, there was no support evidencing the existence of supervisory review over the monitoring package.
- In 5 of 29 subrecipient contracts reviewed, the contract was missing the CFDA number of the federal grant pass through.

Total expenditures incurred by the subrecipients during fiscal year 2006 were \$6,863,849.

Possible asserted cause and effect

The causes of the conditions noted above were due to the lack of formal written policy and procedures and lack of revisions on the contract’s performance reports. Staff was provided verbal rather than documented

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instructions. If subrecipients are not monitored as required by Federal regulations, subrecipients could be expending federal funds for unallowable activities. Additionally, if reports submitted by subrecipients are not reviewed there is a possibility that the subrecipients are not meeting performance goals and program objectives resulting in improper reimbursement for expenditures. Additionally, without a proper contract with the subrecipient the City may be reimbursing ineligible subrecipients.

Recommendation

We recommend that the Department of Housing and Community Development (HCD) review its monitoring procedures and the compliance requirements stipulated in *OMB Circular A-133 Compliance Supplement* and ensure that controls regarding during-the-award monitoring are established, in place and operating effectively in order to ensure that the City is in compliance with related requirements. We additionally recommend that the City utilize and review the established checklist of annual documents, reports, etc. expected of the subrecipients and monitor status of checklists to communicate missing items timely to subrecipients. We further recommend that the City standardize their subrecipient agreements to include required communications such as the CFDA of federal grant pass through funding.

Views of responsible officials and Corrective Action Plan

The performance reports are prepared by the subrecipients and submitted to HCD/GMA. The performance reports are reviewed by Program Analysts for compliance and project timeliness since the Analysts are the ones responsible for the day-to-day contact and contract administration/management. As such, the Program Analysts have knowledge of subrecipient activities and can readily identify issues and/or areas of concern. A review of the current performance reports indicate that the Subrecipients are not certifying that the progress being reported is "true and correct". HCD/GMA will revise the performance reports forms to include certification language that must be signed by the Director of the subrecipient agency. Additionally, HCD/GMA will no longer require the Programs Coordinator's (Supervisor) signature due to the fact that the true control is at the Programs Analyst level.

GMA Program Analysts are required to conduct quarterly project/agency visits on open HOME projects. Program Analyst have the authority to use one of the following forms when conducting monitoring visits/reviews: the on site monitoring review short form; the on site monitoring review long form; and, the project progress status monitoring/compliance report form. All forms require the review and approval by the division supervisor. The Department of Grants Monitoring and Administration has hired a new Monitoring Unit Division Manager effective July 13, 2007. All vacancies in the Monitoring Unit will be filled by October 1, 2007. The Division Manager is currently reviewing the monitoring procedures and will develop new checklists and procedures to ensure that the City is in compliance with HUD as well as OMB subrecipient monitoring requirements. Future monitoring visits will require the Program Analysts to use the checklist available for each project activity.

The Division Manager of the new Monitoring Unit Division is currently reviewing the established monitoring procedures and will develop new or revamp current checklists and procedures to ensure that the City is in compliance with HUD, as well as OMB subrecipient monitoring requirements. Additionally, the Department of Grants Monitoring and Administration has implemented monthly reviews of performance reports and other documentation to ensure timely reporting of accomplishments as well as to communicate any missing data. Procedures will be implemented to ensure the timely reporting of monitoring results. The listed contracts were developed prior to the OMB requirement of identifying funding sources by name and CFDA number. This requirement was implemented in March 2004 and was brought to the attention of the HCD/GMA office during

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the FY 2003 audit review. In complying with this new requirement, HCD/GMA developed a corrective action plan that required the listing of CFDA numbers on all contracts, effective October 1, 2004. As indicated in the auditor's note, all contracts reviewed subsequent to the stated effective date have been in compliance with OMB requirements as well as Departmental procedures.

Implementation Date: October 1, 2007

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

Finding 06-19 – Equipment & Real Property Management

CFDA #20.106 – Aviation Improvement Program

Agency: U.S. Department of Transportation

Pass through entity: N/A

Award year: May 2004 to May 2007

Award number: 3-48-0192-48-04

Type of Finding – Material Weakness and Material Noncompliance

Criteria

The Code of Federal Regulations Title 49, Volume 1 (49CFR18.32 (d)) indicates that procedures for managing equipment whether acquired in whole or in part with grant funds will, as a minimum, meet the following requirements:

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| <u>Questioned Cost</u> None |
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- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Condition

The following was noted during review of equipment management testing during the 2006 fiscal year audit:

- In 1 of 1 equipment acquisition reviewed, property records required to be maintained in SAP (the City's enterprise software system) were not present. We were able to obtain other supporting documentation and physically inspect the equipment noting its existence.

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- A physical inventory of equipment acquired under this grant has not been taken within the past two years.

Possible asserted cause and effect

The department assigned to manage this grant is dependent on the City's Finance Department to provide the detail inventory log to perform observations. As parties involved have not been trained in regards to additional documentation and tracking requirements for grant-funded assets, property records have not included all the required attributes noted above. Additionally, an inventory log for grant-funded assets has not been created in order for the department to perform the inventory observation.

Recommendation

We recommend that the City document required fields in SAP of equipment purchased by grant funds to be in compliance with regulations. We further recommend that the City implement a control and perform inventory observations of equipment purchased with grant funds at least once every two years in compliance with regulations.

Views of responsible officials and Corrective Action Plan

For the equipment purchased, the asset was capitalized in fiscal year 2006, but was entered into SAP in February 2007. A capital project clean up effort was instituted in fiscal year 2006, which resulted in delays of capitalizing assets purchased in capital project funds. Departments will obtain direction from the Finance issued Capital Project Administrative Directive, scheduled for release in August 2007, to ensure assets are recorded and depreciated on a timely basis.

As far as the inventory is concerned, due to turnover at the Aviation Planning & Engineering (P&E) Section in December 2006, Aviation staff was unable to find documentation of such required inventory specifically for Aviation. As we move forward, P & E will develop a process to ensure that an equipment list is compiled for equipment purchased with Grant funding at Aviation, and kept up-to-date.

Implementation Date: December 2007

*Responsible Person: Mark Webb
Director, Aviation*

Finding 06-20 – Eligibility

CFDA #93.575 and 93.596 – Child Care and Development Fund Cluster

Agency: U.S. Department of Health and Human Services

Pass through entity: Alamo Workforce Development

Award year: October 1, 2005 to October 31, 2006

Award number: CCDS 2003001-03

Type of Finding – Reportable Condition and Material Noncompliance

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Criteria

Per 45 CFR Section 98.42, a funding agency is required to establish and periodically revise a sliding fee scale that provides for cost sharing by families that receive child care services. The sliding fee scale shall be based on income and the size of the family and may be based on other factors as appropriate. The City's policy for calculating the fee scale is to obtain three paycheck stubs in order to compute income, and obtain supporting documentation for all applicable sources of income used in calculation to ensure completeness and accuracy of data.

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| <u>Questioned Cost</u> \$ 1,909 |
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Condition

The following were noted during review of eligibility testing during the 2006 fiscal year audit:

- In 1 of 40 participant calculations selected, we noted that the City terminated the participant for noncompliance as a result of not providing the third paycheck stub used to calculate their monthly sliding fee of \$188. The termination was completed five months after the noncompliance, resulting in the City paying \$1,580 in ineligible vendor payments.
- In 1 of 40 participant files selected, we noted the Parent Responsibility Agreement (PRA) required to be signed as part of the enrollment process was not included in the participant's file. As the agreement is a required document for eligibility purposes, total ineligible vendor payments were \$329.

We tested \$5,242 in eligibility expenditures in FY2006. Of the \$1,909 of questioned costs noted above, \$517 was included in the \$5,242.

Possible asserted cause and effect

The staff was not aware that the fees paid to the participant between the time when the participant was determined to be ineligible and when the funding was terminated would be considered unallowable, as a result the participant fees remained in FY2006 expenditures. The City should maintain adequate documentation to support payments for eligible participants. If adequate documentation is not maintained the City may be required to repay the Federal government or future funding could be jeopardized.

Recommendation

We recommend that the City continue to diligently complete and review eligible participant files to ensure that required documentation is obtained and accurately utilized in the calculation of client income and related vendor payments based on the sliding fee scale. We additionally recommend that the City ensure that procedures are put in place to terminate noncompliant participants in a more timely manner and to remove disallowed costs from the grant's expenditures.

Views of responsible officials and Corrective Action Plan

The Department of Community Initiatives Child Care Delivery System Program will continue to monitor and train staff on the complex eligibility requirements of this grant. Monitoring and training procedures will be reviewed and updated if necessary to include termination of clients who fail to provide requested documents. As questioned costs are identified and analyzed, inappropriate expenses to the grant will be transferred to another appropriate funding source.

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Implementation Date: September 1, 2007

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

Finding 06-21 – Reporting

CFDA #93.600 – Head Start

Agency: U.S. Department of Health and Human Services

Pass through entity: N/A

Award years: February 1, 2005 to January 31, 2006 and February 1, 2006 to January 31, 2007

Award numbers: 06CH0107/27 and 06CH0107/28

Type of Finding – Material Weakness and Noncompliance

Criteria

The Code of Federal Regulation Title 45, Volumn 1 (45 CFR 92.41(b)) states that grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction projects and for construction projects when required in accordance with Sec. 92.41(e) (2) (iii). Grantees must submit the report no later than 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support. Per 45 CFR 92.41 (c), for grants paid by letter of credit, Treasury check advances or electronic transfer of funds, the grantee will submit the Standard Form 272, Federal Cash Transactions Report. Grantees must submit the report no later than 15 working days following the end of each quarter. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency.

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| <u>Questioned Cost</u> \$108,390 |
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The financial reports should be supported by applicable accounting records and any additional data elements comprising adjustments between such record and the reports should be supported by worksheets or other documentation linking reports to the data.

Condition

The following were noted during review of reports issued during the 2006 fiscal year audit:

- In 1 of 3 reports reviewed, the City did not submit the SF-269 report within the designated 90-day timeframe obligated per their award. The City submitted the original report in May 2006, when it was due April 30, 2006. Subsequent revisions were made and the final report was submitted eight months after the grant year-end.
- In 1 of 3 reports reviewed, the City's reported net disbursements recorded in the SF-272 were \$108,390 more than the supporting documentation recorded in the general ledger.

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Possible asserted cause and effect

The responsible department did not have sufficient personnel to assist in preparing the reports in a timely manner. Furthermore, the general ledger continued to change due to adjustments and post-closing entries resulting in variances from the original general ledger extraction utilized to generate the report and the final general ledger balances provided to the auditors to validate the report. As a result, there was no clear reconciliation between the expenditures in the report and in the general ledger. The adjustments resulted in the City reporting \$108,390 more in net disbursements for reimbursement than what was paid.

Recommendation

We recommend that the Department of Community Initiative establish and implement procedures to ensure that federal financial reports are submitted by the required deadlines, revisions are submitted in a more timely manner and are supported by applicable accounting records.

Views of responsible officials and Corrective Action Plan

The Final SF-269 Financial Status Report due April 30, 2006 was submitted in early May 2006. The department will establish a reporting process that is consistent with revised Citywide procedures to ensure future reports are filed in a timely manner.

This finding is correct. The Finance Department has completed a restructuring and reorganization process. The Grant Administrative Directive, to be issued August 2007, will specifically detail what documentation is required to be held for external grant reporting.

Implementation Date: October 1, 2007

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

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