City of San Antonio, Texas

FINANCIAL & COMPLIANCE REPORTS ON FEDERAL AND STATE GRANTS "SINGLE AUDIT REPORT"

FISCAL YEAR ENDED
SEPTEMBER 30, 2010

CITY OF SAN ANTONIO, TEXAS

Financial and Compliance Reports on Federal and State Grants "Single Audit Reports" For Fiscal Year-Ended September 30, 2010

Prepared by:
DEPARTMENT OF FINANCE

Ben Gorzell Jr., CPA
Chief Financial Officer

Troy Elliott, CPA
Assistant Director

Melanie Seale, CPA
Controller

Juanita Carabajal, CPA
Disbursement and Receivables Administrator

Elizabeth Drouillard, CPA
Financial Reporting Manager

Jay Blackwell
Financial Reporting Manager

Financial Reporting
Gloria Alvarado
Denise Fuller
Randalyn Harlan
Victoria Roeder

With Assistance From:

Accounting Services
Veronica Carrillo, Fiscal Administrator
Tom Schmidt, General Ledger Manager
Kay Grant, Accounts Payable Manager
Fred Mendoza, Payroll Manager

City of San Antonio, Texas

Introductory Section

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

Table of Contents

Year-Ended September 30, 2010

INTRODUCTORY SECTION

Title Page
Table of Contents
Letter of Transmittal ____ i-xiv

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis (Required Supplementary Information) (Unaudited) ____ 1

Basic Financial Statements:
Government-wide Financial Statements:
Statement of Net Assets ____ 14
Statement of Activities ____ 15

Fund Financial Statements:
Governmental Funds Financial Statements:
Balance Sheet ____ 16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets ____ 17
Statement of Revenues, Expenditures, and Changes in Fund Balances ____ 18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities ____ 19

Proprietary Funds Financial Statements:
Statement of Net Assets ____ 20
Statement of Revenues, Expenses, and Changes in Fund Net Assets ____ 21
Statement of Cash Flows ____ 22

Fiduciary Funds Financial Statements:
Statement of Fiduciary Net Assets ____ 23
Statement of Changes in Fiduciary Net Assets ____ 24

Component Units Financial Statements:
Statement of Net Assets ____ 25
Statement of Activities ____ 26

Notes to Financial Statements ____ 27

Financial and Compliance Report on Federal and State Grants "Single Audit Report"
Table of Contents
Year-Ended September 30, 2010

Required Supplementary Information Other Than MD&A (Unaudited):
General Fund:
Budgetary Comparison Schedule 159

Pension and Postemployment Schedules:
Schedules of Funding Progress 160

Federal Section

Schedule of Expenditures of Federal Awards – By Grantor, Federal Program and Grant Number 164
Notes to the Schedule of Expenditures of Federal Awards 170
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 172
Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 174
Schedule of Findings and Questioned Costs 177
Summary Status of Prior Year Findings 191

State Section

Schedule of Expenditures of State Awards – By Grantor, State Program and Grant Number 200
Notes to the Schedule of Expenditures of State Awards 202
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular* 203
Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the *State of Texas Single Audit Circular* 205
Schedule of Findings and Questioned Costs 207
Summary Status of Prior Year Findings 210

City of San Antonio, Texas

Letter of Transmittal

CITY OF SAN ANTONIO

P O BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 11, 2011

To the Honorable Mayor and City Council:

The City of San Antonio's Financial and Compliance Reports on Federal and State Grants (Single Audit Report) for the fiscal year-ended September 30, 2010, has been audited by the City's Independent Auditor, Grant Thornton LLP. The Federal Single Audit Report has been prepared in accordance with OMB Circular A-133 promulgated to implement the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the AICPA Audit Guide "Government Auditing Standards and Circular A-133 Audits." The State Single Audit Report has been prepared in accordance with the *State of Texas Single Audit Circular*. The reports are comprised of the City Management's Discussion and Analysis (MD&A), Basic Financial Statements, Schedules of Expenditures of Federal and State Awards, respectively, Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, the Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, the Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular*, the Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the *State of Texas Single Audit Circular*, the Schedule of Findings and Questioned Costs, and the Summary Status of Prior Year Findings for both the Federal and State Single Audits.

For the fiscal year ended September 30, 2010, the City was awarded $262.522 million in Federal assistance and $6.075 million in State assistance for a total of $268.597 million, compared to $237.398 million in Federal and $4.312 million in State assistance the previous fiscal year, which totaled $241.710 million. The net increase in Federal of $25.124 million and net increase in State of $1.763 million is reported in the following categories:

Federal Categorical and Block Grants:	**Increase (Decrease)**
Social Services	$ 3,211,725
Air Transportation	3,003,276
Library Services	140,649
Public Health	2,468,842
Criminal Justice	(19,975)
Recreation and Arts	(220,803)
Economic Development	1,266,951
Urban Redevelopment	(8,635,899)
Environmental Quality	500,000
Emergency Management	(2,489,324)
American Recovery and Reinvestment Act	25,017,494
Community Development Block Grant	218,894
HOME Program Block Grant	662,329
Total Net Increase	$ 25,124,159

State Categorical Grants:	Increase (Decrease)
Library Services	$ 118,899
Public Health	205,738
Criminal Justice	11,432
Environmental Quality	1,431,307
Emergency Management	(3,877)
Total Net Increase	$ 1,763,499

A summary schedule reflecting amounts of categorical and block grants to the City in fiscal year 2010 as compared to the preceding year are presented on page xiii. In addition, for your convenience, a list of acronyms identifying grantor agencies used in this report is provided on page xiv.

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

FEDERAL CATEGORICAL GRANTS

Social Services - $104,883,805

In fiscal year 2010, the City was awarded Social Services grants totaling $104,883,805 compared to $101,672,080 awarded to the City in the previous year. The Department of Community Initiatives (DCI) received $48,446,951 from the U.S. Department of Health and Human Services (DHHS) to operate the Head Start-Early Child Care Program. This program provides a wide range of educational and social services to approximately 6,789 low-income, pre-school children and their families. These services are provided at 77 child development centers throughout San Antonio and Bexar County to children ranging from three to five years of age.

The Texas Workforce Commission (TWC) through Alamo Workforce Development, Inc. (AWD) awarded $44,876,548 from DHHS to operate the Child Care Services (CCS) Program. The program provides childcare services to low-income working families. The City provides overall coordination of the CCS Program and includes client services, fiscal management, vendor management, equipment, and materials for qualified CCS service providers. In fiscal year 2010, the program served 13,730.

The Texas Department on Aging and Disability Services (DADS) through the Alamo Area Council of Governments (AACOG) awarded DHHS grants of $2,551,084. The first award in the amount of $2,275,834 was to operate the Comprehensive Nutrition Project. This program provides nutritional and supportive services primarily to senior citizens whose incomes are below poverty level and who are undernourished or deprived. These services are provided through non-profit agencies under contract with the City for provision of senior centers, facilities, meal preparation and delivery of supportive services and homebound meals. In 2010, these grants assisted in providing approximately 747,971 meals to local senior citizens. The second grant in the amount of $275,250 was to operate the Supportive Services for the Elderly Program. This program provided approximately 11,869 one-way bus trips primarily for medical appointments for elderly participants.

The U.S. Department of Housing and Urban Development (HUD) awarded the City four grants relating to social services totaling $6,846,223. $1,064,378 was awarded for Housing Opportunities for Persons with AIDS, which provides housing support for persons with HIV/AIDS. The Supportive Housing Program grant was awarded in the amount of $5,088,167; this grant is designed to promote the development of supportive housing and supportive services in the transition from homelessness to self-sufficiency. Additionally, a Housing Counseling Program Grant, in the amount of $53,212, was awarded and will be used to provide comprehensive housing counseling services. Finally, HUD awarded $640,466 for the Emergency Shelter Grant to enable the rehabilitation, supportive services, and operations of emergency shelters in their urban communities so as to improve conditions for homeless persons and families.

FEDERAL CATEGORICAL GRANTS (Continued)

Social Services (Continued)

The Texas Department of Housing and Community Affairs (TDHCA) awarded $2,060,999 received from DHHS to operate a Community Service Block Grant for the purpose of providing emergency services for our community's most vulnerable residents. Emergency services include food, rent, utility, and prescription assistance.

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

Head Start - Early Child Care Program	(DHHS)	$	48,446,951
Child Care Services Program	(DHHS/TWC/AWD)		44,876,548
Comprehensive Nutrition Project	(DHHS/DADS/AACOG)		2,275,834
Supportive Services for the Elderly Program	(DHHS/DADS/AACOG)		275,250
Housing Opportunities for Persons with AIDS	(HUD)		1,064,378
Supportive Housing Program	(HUD)		5,088,167
Housing Counseling Program	(HUD)		53,212
Emergency Shelter Grant	(HUD)		640,466
Community Service Block Grant	(DHHS/TDHCA)		2,060,999
English Literacy/Civics Education Program	(ED/TEA)		102,000
Total FY 2010 Awards		$	104,883,805

Air Transportation - $19,892,804

For fiscal year 2010, the City's Aviation Department received grants totaling $19,892,804, compared to $16,889,528 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 U.S. Department of Homeland Security (DHS) awarded the City two grants: one for $300,500 to fund the Airport K-9 Grant Program and the second for $334,540 to fund the Airport Checkpoint Grant Program. The U.S. Department of Transportation (DOT) awarded $19,257,764 for various airport improvements, including extensions of a runway, drainage projects, and airfield pavement repairs for the City.

Airport K-9 Grant Program	(DHS)	$	300,500
Airport Checkpoint Grant Program	(DHS)		334,540
Airport Improvement Programs	(FAA)		19,257,764
Total FY 2010 Awards		$	19,892,804

Library Services - $876,018

In fiscal year 2010, the City was awarded Library Grants totaling $876,018 compared to $735,369 awarded in the previous year. San Antonio Public Library acts as the State designated major resource center and is charged with utilizing grants awarded by the Institute of Museum and Library Services (IMLS) and passed through the Texas State Library and Archives Commission System (TSLAC). These grants provide funds for the Alamo Area Library System (AALS), which oversees the Library Systems Operations Grant, the Technical Assistance Negotiated Grant, the Interlibrary Loan Services Grant, and a Congressionally Directed Grant.

An award of $374,427 was granted for the Interlibrary Loan Services. This program provides interlibrary loan services to multi-type libraries in a 21 county area that includes Bexar County. A Library Systems Operations Grant for $365,378 was awarded for the purpose of public library development in the AALS which provides consulting and continuing education for library staff in 45 different library systems across South Texas that also includes the San Antonio Public Libraries. A Technical Assistance Negotiated Grant in the amount of $88,213 was also awarded to the City to provide technical assistance to support member libraries in the utilization, maintenance, and security of computer resources. The last award received was for $48,000 from the Office of Congressman Charles Gonzalez for the 2009 IMLS Congressionally Directed Grant. This grant will enhance the San Antonio Public Library's technology capabilities by allowing the purchase of a new public computer reservation and print management system.

Interlibrary Loan Services Grant	(IMLS/TSLAC)	$	374,427
Library Systems Operations Grant	(IMLS/TSLAC)		365,378
Technical Assistance Negotiated Grant	(IMLS/TSLAC)		88,213
IML - Congressionally Directed Grant	(IMLS/TSLAC)		48,000
Total FY 2010 Awards		$	876,018

Public Health - $15,142,323

In fiscal year 2010, the City was awarded Public Health Grants totaling $15,142,323 compared to $12,673,481, awarded to the City in the previous year. The San Antonio Metropolitan Health District (SAMHD) received $1,933,524 in Public Health State Support Project grants from DHHS through the Texas Department of State Health Services (DSHS) to supplement the delivery of comprehensive public health services to protect the health of all citizens in San Antonio and unincorporated areas of Bexar County. Another award of $2,881,029 from DHHS passed through DSHS is to fund the Childhood Immunization Maintenance Project, which provides immunization protection against vaccine preventable diseases for children throughout the community. DHHS also directly awarded SAMHD a grant in the amount of $830,649 to fund the Healthy Start Initiative. This initiative will provide education and prevention services for women who are at risk for having low birth weight babies.

HUD awarded the City $2,023,874 for the Lead Hazard Reduction Demonstration Grant which will address lead hazards in homes built prior to 1978, of low income families, with children under age six. While a $7,473,247 grant was awarded from the United States Department of Agriculture (USDA) through DSHS to operate the Women, Infants and Children Project. The project provides nutritious foods and nutrition education to qualified pregnant, breastfeeding or postpartum women along with infants and children less than five years. The program serves approximately 49,340 participants each month.

FEDERAL CATEGORICAL GRANTS (Continued)

Public Health (Continued)

Public Health State Support Project	(DHHS/DSHS)	$	1,933,524
Childhood Immunization Maintenance Project	(DHHS/DSHS)		2,881,029
Healthy Start Initiative	(DHHS)		830,649
Lead Hazard Reduction Demonstration	(HUD)		2,023,874
Women, Infants and Children Project	(USDA/DSHS)		7,473,247
Total FY 2010 Awards		$	15,142,323

Criminal Justice - $3,675,251

In fiscal year 2010, the City was awarded Criminal Justice grants totaling $3,675,251 compared to $3,695,226 awarded to the City in the previous year. The Office of the National Drug Control Policy (ONDCP) awarded the City the 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. Under this program, the City received a $1,932,242 grant for the Multi-Agency Drug Courier and Apprehension Task Force.

The U.S. Department of Justice (DOJ) awarded the Police Department three grants totaling $904,127. The first grant in the amount of $71,747 was the Bulletproof Vest Partnership Program, which assists with the purchase of ballistic vests for local law enforcement. The second grant in the amount of $395,038 was for the 2010 Edward Byrne Justice Assistance Program (JAG) to support the Child Welfare Strategic Alliance Program that addresses child abuse. The third grant in the amount of $437,342 was for the SW Texas Fusion Intel Sharing Program to purchase intelligence sharing software including installation, training and maintenance to support the regional Fusion Center.

The DOT through Texas Department of Transportation (TxDOT) awarded the Police Department three grants totaling $720,000. The first grant in the amount of $220,000 was for the Click It or Ticket Program. The funds are to be used to ensure compliance with seat belt and child safety seats laws. The second grant in the amount of $400,000 was for continued funding of the DWI/Speed Enforcement Selective Traffic Enforcement Program. The DWI portion of the grant augmented the Police Department's efforts to combat incidences of DWI, as well as DWI related accidents. The third award in the amount of $100,000 was for the Impaired Driving Mobilization Grant. This grant is designed to provide for additional DWI enforcement during Christmas/New Years, Spring Break, Independence Day, and Labor Day.

The Federal Motor Carrier Safety Administration (FMCSA) through TxDOT awarded the Police Department $75,000 for the Ticketing Aggressive Cars and Trucks (TACT) Readiness Grant. The funds from this grant will be used for overtime to conduct surveys, data analysis, and evaluations so as to establish the goals of the program, travel for conferences and to see how other similar cities have implemented their programs, as well as for computer equipment purchases, and public outreach.

DOJ through the Criminal Justice - Office of the Governor Criminal Justice Division (CJD) awarded DCI a grant totaling $43,882 to support the Youth Against Gang Activity Program, a program under the Juvenile Accountability Block Grant, which operates as both a community prevention/early intervention project as well as a pre-trial alternative school placement diversion option for youth attending targeted schools.

FEDERAL CATEGORICAL GRANTS (Continued)

Criminal Justice (Continued)

High Intensity Drug Trafficking Area	(ONDCP)	$ 1,932,242
Bulletproof Vest Partnership Program	(DOJ)	71,747
Edward Byrne Justice Assistance Program	(DOJ)	395,038
SW TX Fusion Intel Sharing Program	(DOJ)	437,342
Click It or Ticket Program	(DOT/TxDOT)	220,000
DWI/Speed Enforcement Selective Traffic Enforcement	(DOT/TxDOT)	400,000
Impaired Driving Mobilization Grant	(DOT/TxDOT)	100,000
TACT Readiness Grant	(FMCSA/TxDOT)	75,000
Juvenile Accountability Block Grant	(DOJ/CJD)	43,882
Total FY 2010 Awards		$ 3,675,251

Recreation and Arts -$1,431,488

In fiscal year 2010, the City was awarded Recreation grants totaling $1,431,488 compared to $1,652,291 awarded to the City in the previous year. The Texas Health and Human Services Commission (HHSC) awarded grants in the amount of $1,316,488 received from the USDA to operate the Summer Food Service Project to procure lunch and snack rations for children age eighteen and below participating in the City's Summer Youth Recreation Support Program. The program served approximately 189,747 summer snacks and 200,307 lunches in conjunction with the Parks and Recreation Department's traditional Recreation Services Program which operates at 106 sites across the City for the benefit of eligible participants ages eighteen and under. The Texas Commission on the Arts (TCA) through the National Endowment for the Arts (NEA) awarded a $5,000 and an $110,000 grant to the Office of Cultural Affairs to support the operations of five local art agencies.

Summer Food Service Project	(USDA/HHSC)	$ 1,316,488
Texas Commission for the Arts Local Arts Agencies	(NEA/TCA)	115,000
Total FY 2010 Awards		$ 1,431,488

Economic Development - $1,483,259

In fiscal year 2010, the City was awarded Economic Development grants totaling $1,483,259 compared to $216,308 awarded to the City in the previous year. The first grant for the Procurement and Technical Assistance Development Grant from the U.S. Department of Defense's (DOD) Defense Logistics Agency in the amount of $183,259 has been awarded to the City for over 20 years. This grant was used in part to operate the Procurement Technical Assistance for Business Firms Program. This program provides technical procurement assistance to businesses seeking to market their products and services to federal, state, and local governments. The second grant awarded by the U.S. Department of Commerce (DOC) in the amount of $1,300,000 was to enhance development of the commercial corridor to Fort Sam Houston.

Procurement and Technical Assistance Development Grant	(DOD)	$ 183,259
Public Works - Walters Street Infrastructure Grant	(DOC)	1,300,000
Total FY 2010 Awards		$ 1,483,259

FEDERAL CATEGORICAL GRANTS (Continued)

Emergency Management - $10,780,721

In fiscal year 2010, the City was awarded Emergency Management grants totaling $10,780,721 compared to $13,270,045 awarded to the City in the previous year. The first grant from DHS through the Governor's Division of Emergency Management (GDEM), in the amount of $4,302,121 for the Urban Areas Security Initiative (UASI), provides program funds to address the unique planning, equipment, training, and exercise needs of high-threat, high-density urban areas, and assist them in building an enhanced and sustainable capacity to prevent, protect against, respond to, and recover from acts of terrorism. The second grant in the amount of $317,419 for the Metropolitan Medical Response System (MMRS) provides program funds to support designated jurisdictions to further enhance and sustain a regionally integrated, systematic mass casualty incident preparedness program that enables a response during the first crucial hours of an incident. The third grant in the amount of $273,804 for the State Homeland Security Program (SHSP) provides program funds to support the implementation of State Homeland Security strategies to address the identified planning, equipment, training, and exercise needs for acts of terrorism.

DHS awarded the City a grant in the amount of $796,837 for the Assistance to Firefighters, for interoperable communication radios to create seamless communication capabilities among fourteen career and combination Fire Departments, including the San Antonio Fire Department. This grant will enhance the communication with neighboring fire departments during mutual aide incidents.

DHHS through DSHS awarded the City a grant in the amount of $270,079 for the Cities Readiness Initiatives Program to assist in the City's effort towards the Cities Readiness Initiative. Another grant in the amount of $4,810,461 was received from the DHHS through DSHS for the Public Health Emergency Preparedness Program for Bioterrorism Preparedness.

DHHS through the National Association of County and City Health Offices (NACCHO) awarded the Health Department a grant in the amount of $10,000 for the Alamo Area Medical Response Corps (AAMRC). This grant will help fulfill the mission of the AAMRC: to recruit, train and coordinate volunteers whether medical or non-medical professionals to respond to all-hazards events in South Central Texas.

Urban Areas Security Initiative (UASI)	(DHS/GDEM)	$ 4,302,121
Metropolitan Medical Response System (MMRS)	(DHS/GDEM)	317,419
State Homeland Security Program (SHSP)	(DHS/GDEM)	273,804
Assistance to Firefighters Grant	(DHS)	796,837
Cities Readiness Initiative Program	(DHHS/DSHS)	270,079
Public Health Emergency Preparedness Programs	(DHHS/DSHS)	4,810,461
Alamo Area Medical Response Corp.	(DHHS/NACCHO)	10,000
Total FY 2010 Awards		$ 10,780,721

Environmental Quality - $500,000

A grant in the amount of $500,000 was awarded to the National Center for Environmental Health from DHHS. Funding from this grant was used to assess the health behaviors of the Kelly community and address health issues such as lead poisoning, asthma, and indoor air pollutants near the former Kelly Air Force Base.

FEDERAL CATEGORICAL GRANTS (Continued)

American Recovery and Reinvestment Act - $82,173,815

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

In order to take full advantage of the funding opportunities and additional services that may be provided to the City of San Antonio as a result of the American Recovery and Reinvestment Act, City staff has worked closely with City Council to strategize and align specific City Council ranked projects to individual Federal and State agency funded programs. The strategies developed address formula and grants funding opportunities available to the City and serve as the guiding plan for submission of applications and acceptance upon award of stimulus funds by the City. The City was awarded grants in fiscal year 2010 in the amount of $82,173,815, up from $57,156,321 in fiscal year 2009.

SAMHD has received funds in the amount of $15,804,252 from DHHS through DSHS. The first grant in the amount of $15,612,353 for Communities Putting Prevention to Work was to reduce and prevent obesity in children and adults by conducting activities in school and community settings across Bexar County in partnership with several local businesses and organizations, school districts, and other City of San Antonio departments. The second award in an amount of $191,899 for Immunization and Vaccines for Children was to improve and enhance the existing 317 Immunization program to reach more children and adults.

DCI was awarded a DHHS grant of $256,050 from DADS through AACOG for the purchase of an additional 61,447 meals for the Comprehensive Nutrition Project.

DCI was also awarded a DHHS grant of $2,366,201 from TWC through AWD for the Child Care Services Program for child care services specific to foster and abused children.

The San Antonio Fire Department was awarded $7,316,260 from DHS through Federal Emergency Management Agency (FEMA) to provide two permanent facilities to house fire department resources.

The Office of Environmental Policy (OEP) was awarded a total of $12,308,804 from the U.S. Department of Energy (DOE) through TDHCA to implement the San Antonio Weatherization Assistance Program to achieve a prescribed level of energy efficiency in the dwellings of qualified low-income family homes. OEP was also awarded $23,330,000 from the DOE. The first grant in the amount of $10,000,000 was for the Green Retrofit Ramp-up Grant to develop an efficient delivery mechanism targeting residential, commercial, institutional, industrial, and public buildings. The second grant in the amount of $12,897,000 for the Energy Efficiency and Conservation Block Grant was to help manage and implement the reduction of fossil fuel emissions and improve energy efficiency in the building sector, the transportation sector, and other appropriate sectors. The third grant in the amount of $433,000 awarded through State Energy Conservation Office (SECO) for the Distributed Renewal Energy Technology Program was used for funding solar energy systems in the Mission Verde Center which will showcase how energy efficiency and renewable energy can save the community money. OEP was awarded a total of $90,000 from DOE through the Comptroller of Public Accounts, SECO for the Transportation Energy Efficiency Program to convert five existing City-owned hybrid electric vehicles into plug-in hybrid electric vehicles.

The City in partnership with the Texas Railroad Commission (RRC) was awarded DOE funds of $938,219 for the Texas Propane Fleet Program to assist with the purchase of ultra-low-emission propane vehicles and refueling infrastructure. The grant will fund the incremental cost required to replace sixty-five gasoline light-duty trucks to new propane powered light duty trucks and to upgrade and/or install propane fuel stations.

FEDERAL CATEGORICAL GRANTS (Continued)

American Recovery & Reinvestment Act (Continued)

The Police Department was awarded from the DOJ $294,030 for the Edward Byrne Memorial Justice Assistance Grant. The program is designed to enhance the ability of the Police Department in combating the transportation of narcotics through San Antonio.

DOT through TxDOT awarded the City funds in the amount of $18,283,239 for Highway Planning and Construction Projects to construct and reconstruct various road projects, and a Hike and Bike Trial.

DOC through TSLAC awarded the City $1,186,760 which will be used to update IT infrastructure and facilities and purchase and replace additional computers in the Library Department.

Communities Putting Prevention to Work	(DHHS/DSHS)	$ 15,612,353
Immunization and Vaccines for Children	(DHHS/DSHS)	191,899
Comprehensive Nutrition Program	(DHHS/DADS/AACOG)	256,050
Child Care Services Program	(DHHS/TWC/AWD)	2,366,201
Firefighters Station Construction Grant	(DHS/FEMA)	7,316,260
Weatherization Assistance Program	(DOE/TDHCA)	12,308,804
Green Retrofit Ramp-Up Grant	(DOE)	10,000,000
Energy Efficiency and Conservation Block Grant	(DOE)	12,897,000
Distributed Renewal Energy Technology	(DOE/SECO)	433,000
Transportation Energy Efficiency Program	(DOE/SECO)	90,000
Texas Propane Fleet Program	(DOE/RRC)	938,219
Edward Byrne Memorial Justice Assistance Grant	(DOJ)	294,030
Highway Planning and Construction Projects	(DOT/TxDOT)	18,283,239
Broadband Technology Opportunities Program	(DOC/TSLAC)	1,186,760
Total FY 2010 Awards		$ 82,173,815

FEDERAL BLOCK GRANTS

During fiscal year 2010, the City received Block Grants from HUD under the Community Development Block Grant Program (CDBG) and the HOME Investment Partnership Act Program. The City's Grants Monitoring and Administration Department administers and monitors the Block Grant Programs for expenditure in accordance with HUD regulations and guidelines. A program expenditure plan, which is reviewed and approved by HUD, is adopted by the City Council for each annual Block Grant Entitlement. Additional information on the Block Grant Entitlements awarded to the City for fiscal year 2010 is as follows:

Community Development Block Grant Program – Year 35 (Fiscal Year 2010) - $14,603,827

Since 1977, the City has received annual entitlements from HUD for the CDBG Program under Title I of the Housing and Community Act of 1974. The aim of the program is to assist cities in the development of viable urban communities, including adequate housing and a suitable living environment, and to assist in expanding economic opportunities principally for persons of low and moderate income. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $14,603,827 for the 35th entitlement year of the program. The previous year's annual entitlement grant was $14,384,933.

FEDERAL BLOCK GRANTS (Continued)

HOME Investment Partnership Act Program – Year 18 (Fiscal Year 2010) - $7,079,150

Fiscal Year 2010 was the 18th year the City received an annual entitlement from HUD for the HOME Investment Partnership Act Program under Title II of the National Affordable Housing Act of 1990. The objective of the program is to address critical local housing needs. The program provides for projects and activities with the opportunity for citizens to make recommendations through public hearings. The City was awarded $7,079,150 for the 18th entitlement year of the program. The previous year's entitlement grant was $6,416,821.

FEDERAL COGNIZANT AGENCY

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

STATE CATEGORICAL GRANTS

Library Services - $301,869

TSLAC awarded the San Antonio Library Systems the amount of $301,869 in fiscal year 2010 compared to $182,970 in the prior year. The first grant in the amount of $300,483 for the Loan Star Libraries Grant FY2010 was used to continue to provide live homework help to students in kindergarten through college prep/adult learn math, science, social studies and English. The Tutor.com on-line tutoring services provides on demand one-on-one tutoring in both English and Spanish. Grant funds were also used to purchase equipment and technology in support of library programming and outreach services and for the provision of staff training and professional development. The second grant in the amount of $1,386 was designed to provide professional artist fees to schools, libraries, and non-profit organizations for hiring an artist from the TCA Touring Roster to do a performance. Annually, the San Antonio Public Library promotes literacy through the Summer Reading Program by energizing participants to visit the library and enjoy scheduled performances by various artists. With this grant, the Library hired the Storybook Theatre to provide twenty-one performances of "Goldie Fox and the Two Hares."

Loan Star Libraries Grant	(TSLAC)	$ 300,483
Arts Respond Performance Support Grant	(TSLAC)	1,386
Total FY 2010 Awards		$ 301,869

Public Health - $2,635,162

DSHS awarded SAMHD the amount of $2,635,162 in fiscal year 2010 for Public Health State Supported Projects compared to $2,429,424 in 2009. These funds are to provide support services for a variety of public health programs.

Criminal Justice - $1,061,917

The City was awarded Criminal Justice grants totaling $1,061,917 in fiscal year 2010 compared to $1,050,485 in the prior year. The Police Department was awarded a grant totaling $1,010,417 from the Texas Automobile Burglary and Theft Prevention Authority (TABTPA) to lower the automobile theft rate by instituting innovative enforcement and theft prevention techniques and creating a multi-jurisdictional unit composed of city, county, and state elements. The City was also awarded a Tobacco Compliance Grant from the Texas State Comptroller of Public Accounts (TSCPA) in the amount of $51,500 under the provisions of the Texas Health and Safety Code Ann Sec 161.088(b). This grant is for enforcement of the laws prohibiting the sale and use of tobacco by minors. The grant will fund overtime for the SAPD's Vice Unit to conduct on-site compliance inspections and on-site controlled buys or "stings" of tobacco retail outlets using minors as decoys. The grant will also fund the educating of tobacco retailers and court personnel involved in adjudicating tobacco violations.

STATE CATEGORICAL GRANTS (continued)

Criminal Justice (Continued)

Regional Auto Crimes Team Grant	(TABTPA)	$ 1,010,417
Tobacco Compliance Grant	(TSCPA)	51,500
Total FY 2010 Awards		$ 1,061,917

Environmental Quality - $2,047,140

Environmental Quality grants totaling $2,047,140 were awarded in fiscal year 2010 compared to $615,833 awarded to the City in the previous year. The Texas Commission on Environmental Quality (TCEQ), through AACOG awarded the City four grants. The first and second grant to the Solid Waste Management Department in an amount of $544,576 to provide support for environmental programming efforts related to recycling, solid waste stream reduction and municipal enforcement of anti-dumping laws. The second grant was awarded to the SAMHD in the amount of $647,404 to support the Public Center for Environmental Health, in the operation and maintenance of air monitors. The third grant in the amount of $755,160 was awarded to the Environmental Department for the Texas Emissions Reduction Program to provide financial incentives to eligible individuals, businesses or local governments to reduce emissions from polluting vehicles and equipment. The fourth grant the City was awarded was for $100,000 from the SECO Alternative Fuel and Hybrid Vehicle grant program. This grant will assist with the City's effort to reduce emissions and the City's dependence on petroleum by funding the incremental cost difference between new conventional and hybrid vehicles of twenty hybrid sedans.

Regional Solid Waste Pass-Through Grants	(TCEQ/AACOG)	$ 544,576
San Antonio Air Monitoring Project	(TCEQ)	647,404
Texas Emission Reduction	(TCEQ)	755,160
Texas Propane Fleet Program	(SECO)	100,000
Total FY 2010 Awards		$ 2,047,140

Emergency Management - $29,167

An Emergency Medical Services grant in the amount of $29,167 was awarded in fiscal year 2010 compared to $33,044 awarded for the same grant in the previous year. This grant was awarded by DSHS through the Southwest Texas Regional Advisory Council to be used to assist in improving the functionality of EMS agencies in the State of Texas.

STATE COORDINATING AGENCY

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

PAST AND CURRENT YEAR AUDIT FINDINGS

Under the Single Audit process, grantor agencies require the resolution of any audit findings or questioned costs. The City diligently pursues the resolution of audit findings or questioned costs with grantor agencies. A detailed account of findings associated with the fiscal year-ended September 30, 2010 is presented in the "Schedule of Findings and Questioned Costs" for federal awards beginning on page 177 of this report, while the "Schedule of Findings and Questioned Costs" for state awards begins on page 207. A status report for each prior year's audit findings entitled "Status of Prior Year Findings" is also available in this document beginning on page 191 for federal awards and page 210 for state awards. This report describes the City's planned corrective action in response to prior year's findings and questioned costs. The City continues its efforts to resolve each of these findings with the respective grantor agency.

CONCLUSION

During fiscal year 2010, as in past years, the City has been the recipient of both Federal and State grants in support of acquisition of facilities, construction of public improvements, and the operation of programs, which the City would have been unable to undertake from local resources. These grants have materially contributed to enhancing the quality of life for the citizens of San Antonio.

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

Respectfully submitted,

Ben Gorzell Jr., CPA
Chief Financial Officer
City of San Antonio

City of San Antonio, Texas
Schedule of Federal & State Grants Awarded in Fiscal Year 2010
(With comparative totals for Fiscal Year 2009)

Grant Type	Fiscal Year 2010	Fiscal Year 2009	Variance Increase (Decrease)
Federal Categorical Grants:			
Social Services	$ 104,883,805	$ 101,672,080	$ 3,211,725
Air Transportation	19,892,804	16,889,528	3,003,276
Library Services	876,018	735,369	140,649
Public Health	15,142,323	12,673,481	2,468,842
Criminal Justice	3,675,251	3,695,226	(19,975)
Recreation and Arts	1,431,488	1,652,291	(220,803)
Economic Development	1,483,259	216,308	1,266,951
Urban Redevelopment		8,635,899	(8,635,899)
Emergency Management	10,780,721	13,270,045	(2,489,324)
Environmental Quality	500,000		500,000
American Recovery and Reinvestment Act	82,173,815	57,156,321	25,017,494
Total Federal Categorical Grants	$ 240,839,484	$ 216,596,548	$ 24,242,936
Federal Block Grants:			
Community Development Block Grant - Year 35 FY 2010 & Year 34 FY 2009	$ 14,603,827	$ 14,384,933	$ 218,894
HOME Program Block Grant - Year 18 FY 2010 & Year 17 FY 2009	7,079,150	6,416,821	662,329
Total Federal Block Grants	$ 21,682,977	$ 20,801,754	$ 881,223
Total Federal Grants	$ 262,522,461	$ 237,398,302	$ 25,124,159
State Categorical Grants:			
Library Services	$ 301,869	$ 182,970	$ 118,899
Public Health	2,635,162	2,429,424	205,738
Criminal Justice	1,061,917	1,050,485	11,432
Environmental Quality	2,047,140	615,833	1,431,307
Emergency Management	29,167	33,044	(3,877)
Total State Categorical Grants	$ 6,075,255	$ 4,311,756	$ 1,763,499
Grand Totals State	$ 6,075,255	$ 4,311,756	$ 1,763,499
Grand Totals Federal	262,522,461	237,398,302	25,124,159
Grand Totals	$ 268,597,716	$ 241,710,058	$ 26,887,658

AGENCIES AND PROGRAM ACRONYMS

AACOG	- Alamo Area Council of Governments
AALS	- Alamo Area Library System
AWD	- Alamo Workforce Development, Inc.
CCS	- Child Care System
CDBG	- Community Development Block Grant
DOC	- Department of Commerce
DCI	- Department of Community Initiatives
FEMA	- Federal Emergency Management Agency
HIDTA	- High Intensity Drug Trafficking Area
IMLS	- Institute of Museum and Library Services
NACCHO	- National Association of County and City Health Offices
NEA	- National Endowments for the Arts
OEP	- Office of Environmental Policy
CJD	- Office of the Governor - Criminal Justice Division
GDEM	- Office of the Governor - Division of Emergency Management
ONDCP	- Office of the National Drug Control Policy
RRC	- Railroad Commission of Texas
SAMHD	- San Antonio Metropolitan Health District
SECO	- State Energy Conservation Office
TABTPA	- Texas Automobile Burglary and Theft Prevention Authority
TCEQ	- Texas Commission on Environmental Quality
TCA	- Texas Commission on the Arts
TDHCA	- Texas Department of Housing and Community Affairs
DSHS	- Texas Department of State Health Services
TxDOT	- Texas Department of Transportation
DADS	- Texas Department on Aging and Disability Services
TEA	- Texas Education Agency
HHSC	- Texas Health and Human Services Commission
TSCPA	- Texas State Comptroller of Public Accounts
TSLAC	- Texas State Library and Archives Commission System
TWC	- Texas Workforce Commission
TACT	- Ticketing Aggressive Cars and Trucks
USDA	- U.S. Department of Agriculture
DOC	- U.S. Department of Commerce
DOD	- U.S. Department of Defense
DOE	- U.S. Department of Energy
ED	- U.S. Department of Education
DHHS	- U.S. Department of Health and Human Services
DHS	- U.S. Department of Homeland Security
HUD	- U.S. Department of Housing and Urban Development
DOJ	- U.S. Department of Justice

City of San Antonio, Texas

Financial Section

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Independent Auditor's Report

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, and San Antonio Housing Trust Finance Corporation, blended component units, which represent 71%, 80% and 29%, respectively, of the assets, net assets/fund balances and revenues/additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

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

Grant Thornton

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 159, and Schedules of Funding Progress on pages 160 - 163 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and the *State of Texas Single Audit Circular* and are also not a required part of the basic financial statements of the City. The schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Grant Thornton LLP

Dallas, Texas
March 11, 2011

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, 2010. 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 $2,878,843 (net assets). Of this amount, $163,807 (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 $958,721, an increase of $12,386 compared to the fiscal year 2009 restated fund balance. The total unreserved fund balance of $506,575 is available for spending at the government's discretion. Of this amount, $106,747 is designated and $399,828 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $199,110 or 24.4% of the total General Fund expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Categorical Grant-In Aid, Debt Service Fund, and the 2007 General Obligation Bonds Fund all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year-ended September 30, 2010.

Net Assets
Year-Ended September 30, 2010
(With Comparative Totals for September 30, 2009)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	$ 1,473,273	$ 1,247,871	$ 227,481	$ 245,770	$ 1,700,754	$ 1,493,641
Capital Assets	3,637,655	3,519,907	627,007	540,223	4,264,662	4,060,130
Total Assets	5,110,928	4,767,778	854,488	785,993	5,965,416	5,553,771
Current and Other Liabilities	400,852	390,096	52,789	51,399	453,641	441,495
Long-term Liabilities	2,183,125	1,880,285	449,807	404,840	2,632,932	2,285,125
Total Liabilities	2,583,977	2,270,381	502,596	456,239	3,086,573	2,726,620
Net Assets:						
Investments in Capital Assets, Net of Related Debt	2,241,952	2,200,616	270,226	260,679	2,512,178	2,461,295
Restricted	124,300	128,727	78,558	66,099	202,858	194,826
Unrestricted	160,699	168,054	3,108	2,976	163,807	171,030
Total Net Assets (as restated)	$ 2,526,951	$ 2,497,397	$ 351,892	$ 329,754	$ 2,878,843	$ 2,827,151

For the year-ended September 30, 2010, total assets exceeded liabilities by $2,878,843. The largest portion of the City's net assets, $2,512,178 (87.3%) 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, and intangibles.

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

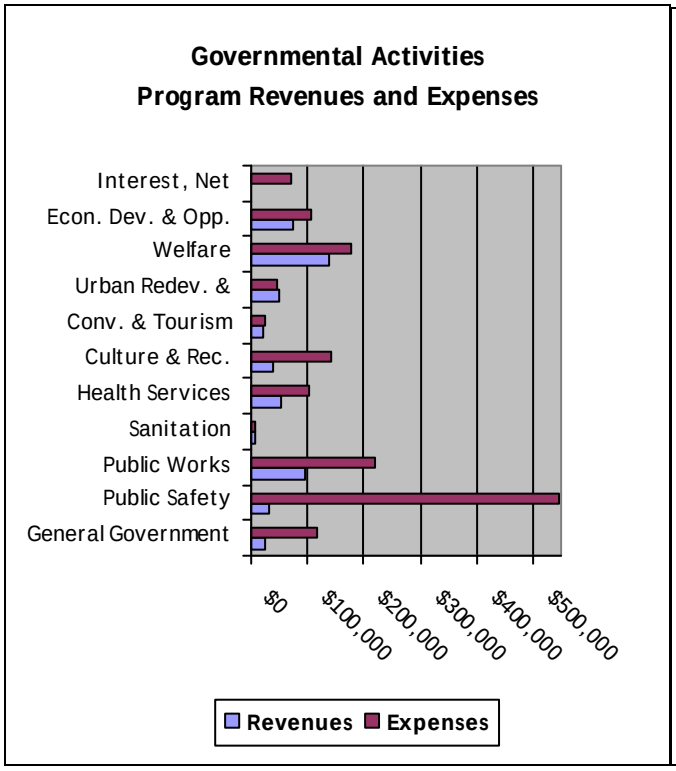
Of the total net assets, $202,858, 7.0%, represents resources that are subject to external restrictions on how they may be used. The remaining $163,807, 5.7%, represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

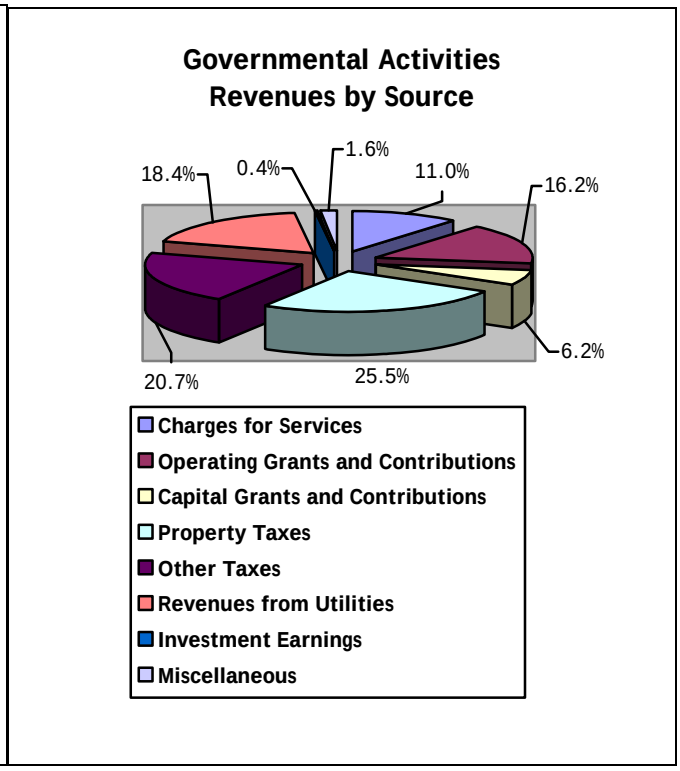
City of San Antonio, Texas
Changes in Net Assets
Year-Ended September 30, 2010
(With Comparative Totals for September 30, 2009)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	$ 175,868	$ 176,136	$ 160,892	$ 152,170	$ 336,760	$ 328,306
Operating Grants and Contributions	258,714	206,356			258,714	206,356
Capital Grants and Contributions	98,362	81,114	40,156	31,115	138,518	112,229
General Revenues:						
Property Taxes	406,579	407,183			406,579	407,183
Other Taxes	328,928	323,467			328,928	323,467
Revenues from Utilities	293,114	275,993			293,114	275,993
Investment Earnings	6,959	17,500	823	4,769	7,782	22,269
Miscellaneous	25,181	24,017	480	464	25,661	24,481
Total Revenues	1,593,705	1,511,766	202,351	188,518	1,796,056	1,700,284
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	117,505	92,415			117,505	92,415
Public Safety	545,228	497,274			545,228	497,274
Public Works	221,612	212,256			221,612	212,256
Sanitation	8,385	3,953			8,385	3,953
Health Services	104,667	92,351			104,667	92,351
Culture and Recreation	143,122	145,386			143,122	145,386
Convention and Tourism	26,437	42,512			26,437	42,512
Urban Redevelopment and Housing	44,447	45,533			44,447	45,533
Welfare	177,817	162,956			177,817	162,956
Economic Development and Opportunity	106,766	23,260			106,766	23,260
Interest on Long-Term Debt, Net	70,945	75,108			70,945	75,108
Business-Type Activities:						
Airport System			83,240	81,229	83,240	81,229
Parking System			9,135	8,984	9,135	8,984
Solid Waste Management			85,058	88,900	85,058	88,900
Total Expenses	1,566,931	1,393,004	177,433	179,113	1,744,364	1,572,117
Change in Net Assets						
Before Transfers and Special Items	26,774	118,762	24,918	9,405	51,692	128,167
Special Items				4,528		4,528
Transfers	2,780	498	(2,780)	(498)		
Net Change in Net Assets	29,554	119,260	22,138	13,435	51,692	132,695
Beginning, Net Assets (as restated)	2,497,397	2,378,137	329,754	316,319	2,827,151	2,694,456
Ending, Net Assets (as restated)	$ 2,526,951	$ 2,497,397	$ 351,892	$ 329,754	$ 2,878,843	$ 2,827,151

The City's total revenues were $1,796,056 for fiscal year-ended September 30, 2010. Revenues from governmental activities totaled $1,593,705 and revenues from business-type activities totaled $202,351. General revenues represented 59.1% of the City's total revenue, while program revenues provided 40.9% of revenue received in fiscal year 2010. Expenses for the City totaled $1,744,364. Governmental activity expenses totaled $1,566,931, or 89.8% of total expenses.

Governmental Activities





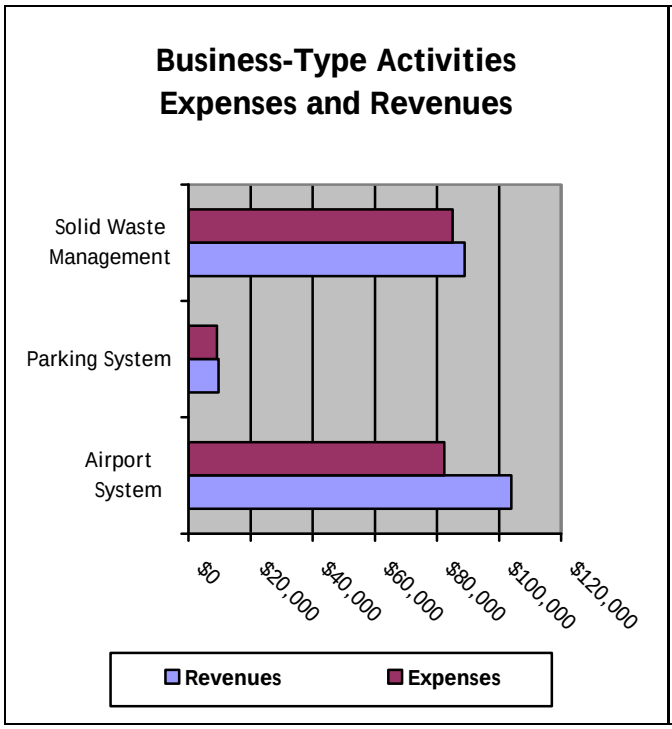
Governmental Activities increased the City's net assets by $29,554. The reason for the change is as follows:

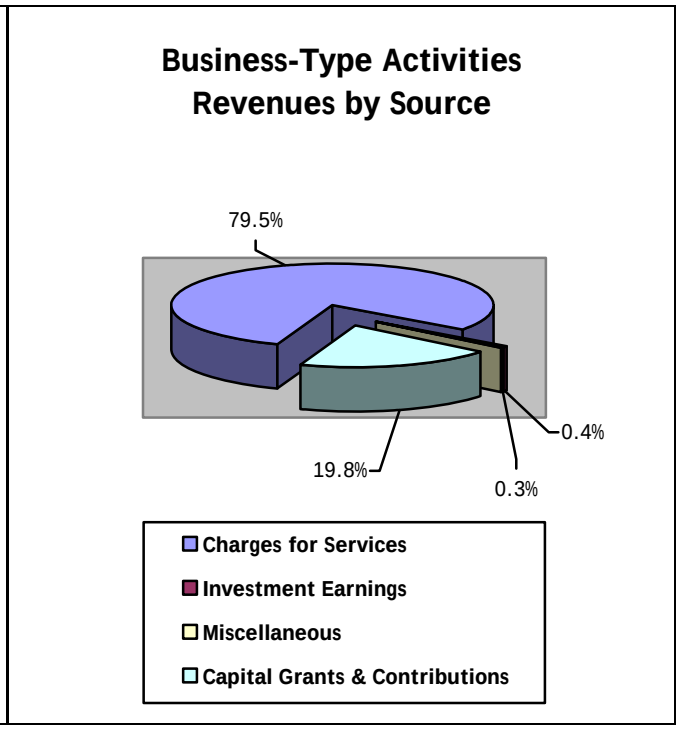
- Grants and Contributions revenues increased by $69,606 primarily due to 1) the increase in American Reinvestment and Recovery Act (ARRA) grant awards and spending mainly related to Department of Energy and Department of Health Services' grants; 2) $17,636 received from the State of Texas for the State's rebate program, which provides municipalities the opportunity to obtain reimbursement for eligible expenses related to hosting and attracting high-visibility, high-tax impact events to the state of Texas that could otherwise take place outside of the state; and 3) $2,500 contribution to the San Antonio Economic Development Corporation to start its operations.
- Although net taxable assessed values increased from $72,541 in fiscal year 2009 to $72,743 in fiscal year 2010, revenues from Property Taxes decreased by $604 due to 1) a 0.145% decrease in the City's direct rate; and 2) increased successful property tax appeals filed by constituents and local businesses. The direct rate was reduced as part of a package deal of United Health System's taking over a number of City clinics in 2008.
- Other Taxes increased by $5,461 due to a slight upturn in the economy and increase in overall tourism for the City. The improvement of the economy resulted in an increase in tourism, along with an increase in convention business and caused Hotel Occupancy Taxes and Sales and Use Taxes to increase by $934, and $1,729, respectively, from the prior year.
- CPS Energy revenues increased by $18,043 due to a 2% increase in electric sales and a 23% increase in natural gas prices from the prior year. Revenues from SAWS revenues decreased by $922 due to decreased sales resulting from a wetter than normal summer season, which decreased water usage.
- Investment Earnings decreased by $10,541 due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.
- General Government expenses were higher by $25,090 from fiscal year 2009 primarily due to 1) $17,179 in assets that did not meet the threshold to be capitalized; and an increase of $2,756 for building maintenance costs.

- Public Safety expenses increased by $47,954 from the prior fiscal year due to 1) $23,002 of expenses associated with police and fire accrued leave, increased obligations for post-employment benefits and overtime; 2) $2,795 of new costs for 50 additional officers hired due to the COPS Hiring Grant received in 2010; and 3) $3,042 of increased insurance claim assessments charged to the departments based on the volume and severity of prior year incidents.
- Expenses for Health Services increases by $12,316 primarily due to 1) the City expending the Public Health Emergency Response Grant received in fiscal year 2010; and 2) purchasing $7,832 in assets that did not meet the threshold to be capitalized.
- Convention and Tourism's reduction of $16,075 was due to a change in function for reporting the Convention Center Hotel Finance Corporation's $17,578 in fiscal year 2009 expenses. The Convention Center completed its construction of the Grand Hyatt Hotel in fiscal year 2009. Expenses incurred in fiscal year 2010 related to the construction of the Hotel's condominiums which are more appropriately designated as economic development.
- Welfare increased $14,861 from fiscal year 2009 primarily due to 1) the various awards of grants associated with ARRA. As the awards increased, so too did the various expenses matched or covered by the General Fund.
- Economic Development and Opportunity expenses increased $83,506 from fiscal year 2009 primarily due to a change in function for reporting fiscal year 2010 expenses in the amount of $56,425 related to the Convention Center Hotel Finance Corporation, as noted above under Convention and Tourism. The City also recognized $16,260 and $6,655 of expenses in fiscal year 2010 which were related to the HUD 108 Loan Program and the City's Tax Increment Reinvestment Zones, respectively.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $201,048, which is $17,763 higher than the previous fiscal year. The remaining revenues were a result of investment earnings and other miscellaneous items. Expenses for Business-Type Activities were $177,433 compared to prior year's expenses of $179,113.





Business-Type Activities increased the City's net assets by $22,138, primarily because of the following:

- Charges for Services increased by $8,722 primarily due to an increase in passenger travel through San Antonio International Airport, resulting in $1,953 more in Airport Systems revenues; Solid waste fees increasing by $6,625, mainly due to an increase in commodity prices paid by recycling centers for the City's recycling.
- A $9,041 increase in Capital Grants and Contributions was primarily attributed to a $7,060 increase in grant funded capital project expenses related to the Airport's ongoing expansion project, as well as an increase of $1,399 in passenger facility charge revenues due to increased passenger travel at San Antonio International Airport.
- Investment Earnings decreased by $3,946, due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.
- Airport System expenses increased by $2,011 primarily due to increased contractual services and commodities at both San Antonio International and Stinson Airports.
- Solid Waste Management expenses decreased by $3,842, due to the implementation of the automated garbage collection services, which was completed in fiscal year 2010.

Financial Analysis of Governmental Funds

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

Revenues from taxes increased by $4,857, which is primarily attributable to: (1) a $604 decrease in property tax and related penalties and interest revenues in the General Fund, (2) a $1,326 increase in sales and use tax revenues in the General Fund, (3) a $375 decrease in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $934 increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $67 decrease in property tax revenue in the Tax Increment Reinvestment Zone Fund. The decreases in property taxes are a result of a slight decrease in property valuation; while the increase in sales and use taxes and occupancy taxes are results of an upswing in the economy and increased activity associated with tourism and convention business.

The total fund balance of the General Fund at year-end was $229,636, an increase of $23,129 from the total fund balance of $206,507 in fiscal year 2009. The total unreserved General Fund balance for fiscal year 2010 is $199,110, which represents $97,762 in designated and $101,348 in undesignated fund balances. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the end of the fiscal year, increased by $1,040 from the previous year's balance, while the City's financial reserves also increased $679 in fiscal year 2010. This reserve, which is recorded in the designated unreserved balance, will be utilized for unforeseen operational or capital requirements, extraordinary occurrences such as natural disasters or other similar events, to assist the City in managing fluctuations in available General Fund resources and to stabilize the budget.

The total fund balance of the Debt Service Fund at year-end was $109,083, a decrease of $3,841 from the total fund balance of $112,924 in fiscal year 2009. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $4,397 as a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has two years remaining to fund.

The total fund balance of the 2007 General Obligation Bonds at year-end was $238,321, an increase of $141,207 from the total fund balance of $97,114 in fiscal year 2009. The voters approved a $550,000 bond for City improvements in fiscal year 2007. The City issued debt of $200,350 related to that bond during the current fiscal year.

General Fund Budgetary Highlights

Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 97,975	$ 86,977	$ 82,942
Public Safety	506,841	507,106	505,045
Public Works	41,933	45,341	44,237
Health Services	71,862	74,782	73,898
Sanitation	3,163	3,385	3,212
Culture and Recreation	75,447	77,655	76,983
Welfare	39,177	42,627	41,142
Economic Development and Opportunity	2,459	2,838	2,907
Transfers to Other Funds	48,199	66,495	66,495
Total	$ 887,056	$ 907,206	$ 896,861

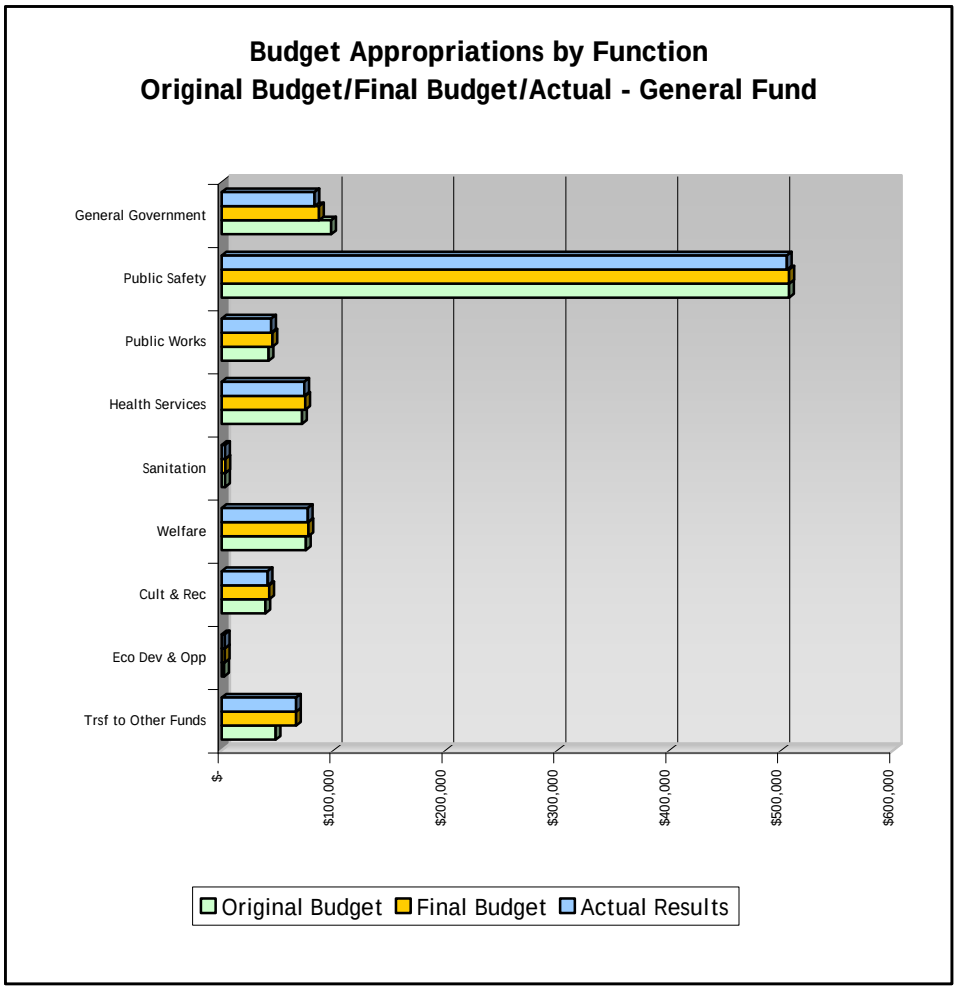
Changes in original budget appropriations to the final amended budget appropriations resulted in a net $20,150 increase in appropriations. This increase can be summarized by the following:

- General Government had a $10,998 decrease. Indirect cost reimbursements from other funds caused a $9,360 decrease. Budget carryforwards caused a $3,046 increase, while ordinance and analyst adjustments accounted for a decrease of $4,705.
- Of the $3,408 increase in Public Works, $3,273 consisted of budget carryforwards while the remaining $135 increase consisted of budget adjustments.
- Of the $3,450 increase in Welfare, $3,628 consisted of budget carryforwards while the remaining $178 decrease consisted of budget adjustments.
- The $18,296 increase in Transfers to Other Funds consisted of $3,218 of budget carryforwards, $8,172 in budget adjustments related to Public Works projects since the Streets and Drainage Fund had been incorporated into the General Fund in fiscal year 2010, and $6,794 of other budget adjustments.

Final budgeted appropriations for the General Fund were $907,206, while actual expenditures on a budgetary basis were $896,861 creating a positive variance of $10,345. Significant variances are as follows:

- General Government had a $4,035 positive variance. The City budgeted the retiree payouts in the General Government function while actual payouts are charged across all functions. Salary reserves represented $8,500 in fiscal year 2010. Public Safety typically receives 70% of these funds. Further savings were achieved across departments as a result of hiring being delayed during the fiscal year.
- Public Safety had a $2,061 positive variance due to savings in the implementation of the Computer Aided Dispatch program.
- Public Works had a $1,104 positive variance due to lower than expected spending on building improvement materials.

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



Financial Analysis of Proprietary Funds

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

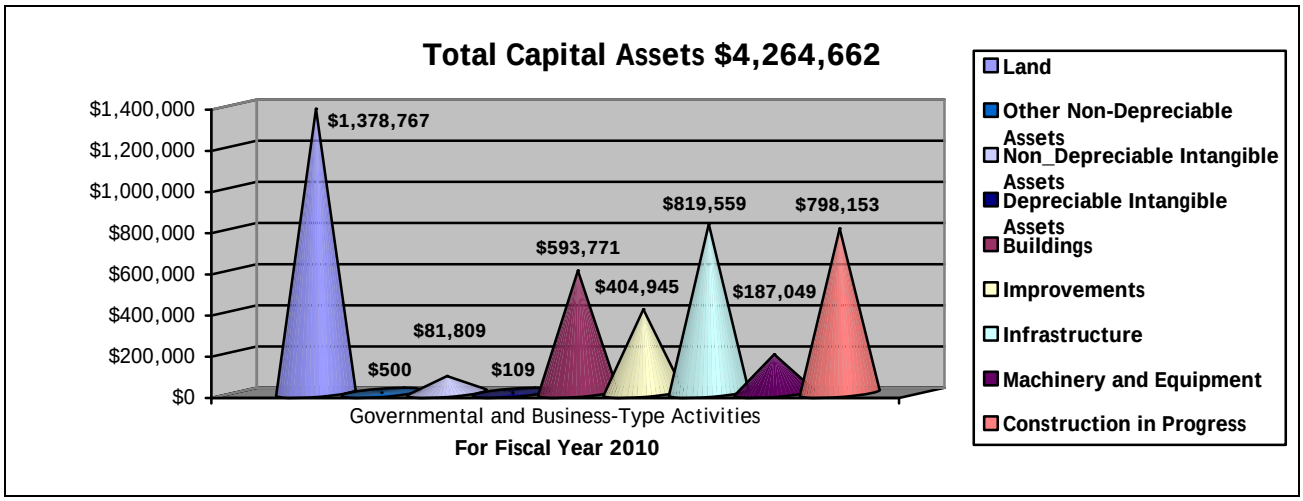
Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to $4,264,662 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, intangible assets and construction in progress. The net increase in the City's investment in capital assets for the current fiscal year was $204,532, which comprises an $117,748 increase in governmental activities and an $86,784 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	$ 1,364,427	$ 1,430,280	$ 14,340	$ 14,341	$ 1,378,767	$ 1,444,621
Other Non-Depreciable Assets	500	500			500	500
Non-Depreciable Intangible Assets	81,809				81,809	
Depreciable Intangible Assets	109				109	
Buildings	454,437	457,223	139,334	139,042	593,771	596,265
Improvements	273,450	232,070	131,495	136,343	404,945	368,413
Infrastructure	819,559	852,026			819,559	852,026
Machinery and Equipment	163,595	159,451	23,454	23,299	187,049	182,750
Construction in Progress	479,769	388,357	318,384	227,198	798,153	615,555
Total	$ 3,637,655	$ 3,519,907	$ 627,007	$ 540,223	$ 4,264,662	$ 4,060,130

During fiscal year 2010, the City transferred $129,789 of construction in progress to depreciable asset classes for various completed projects of buildings, improvements, infrastructure, and machinery and equipment.

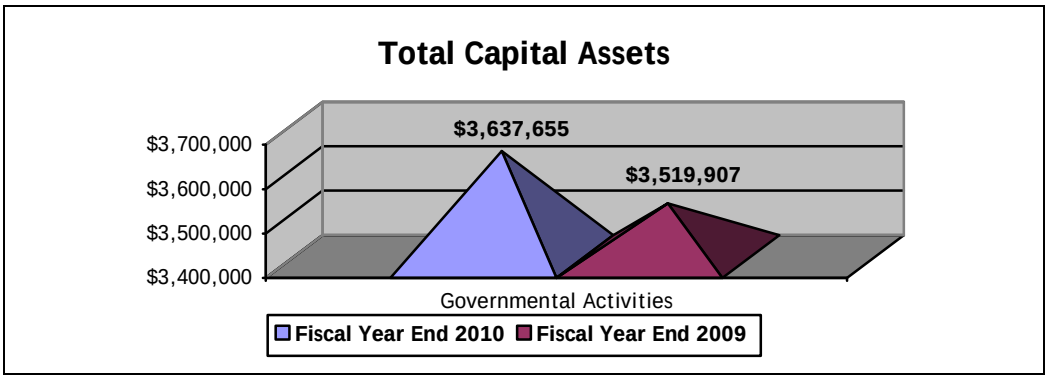
The following schedule provides a summary of the City's capital assets:

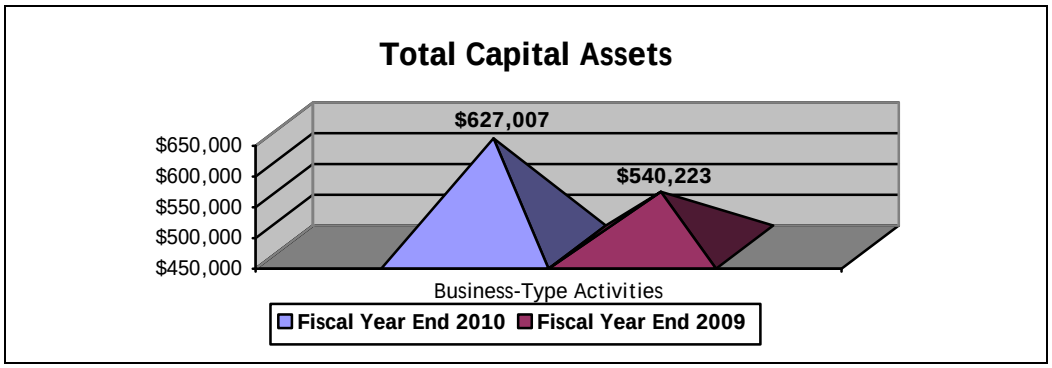


Change in Capital Assets
September 30, 2010

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 5,566,633	$ 737,244	$ 6,303,877
Additions	270,213	107,715	377,928
Deletions	(29,864)	(6,592)	(36,456)
Accumulated Depreciation	(2,169,327)	(211,360)	(2,380,687)
Ending Balance	$ 3,637,655	$ 627,007	$ 4,264,662

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





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

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $2,236,689 in bonds, certificates, tax notes and commercial paper outstanding, an increase of 5.3% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt and Note 7, Commercial Paper Programs.

September 30, 2010 and 2009

	Governmental Activities	
	2010	2009
Bonds Payable:		
General Obligation Bonds	$ 912,900	$ 731,270
Tax-Exempt Certificates of Obligation	303,635	348,235
Taxable Certificates of Obligation	80	155
Tax Notes	28,860	48,095
Commercial Paper	14,370	25,805
Revenue Bonds	557,387	570,252
Capital Appreciation Bonds (CAB)	20,077	18,812
Total	$ 1,837,309	$ 1,742,624

	Business-Type Activities	
	2010	2009
Bonds Payable:		
General Obligation Bonds	$ 18,220	$ 18,480
Tax-Exempt Certificates of Obligation	2,135	2,715
Tax Notes	34,500	
Revenue Bonds	344,525	360,380
Total	$ 399,380	$ 381,575

Governmental Activities

In 2010, the City issued additional indebtedness for a total of $413,180. The $413,180 was composed of $356,060 in general obligation bonds, $38,375 in certificates of obligations, $9,655 in tax notes, and $9,090 in revenue bonds.

In March 2010, the City issued $156,255 in General Improvement Refunding Bonds, Series 2010, of which $545 funded Solid Waste Management projects. The general obligation bonds were issued to refund certain obligations of the City (Refunded Obligations).

In March 2010, the City issued $9,090 in Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010. The Bonds were issued to refund certain municipal facilities corporation bonds.

In July 2010, the City issued the following: $8,800 in General Improvement Bonds, Series 2010A, $191,550 in General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds), and $38,375 in Combination Tax and Revenue Certificates of Obligation, Series 2010. The General Improvement Bonds, Series 2010A were issued to finance improvements to parks, recreation, and open space and athletics. The General Improvement Bonds, Taxable Series 2010B were issued to finance improvements to streets, bridges and sidewalks, drainage, and libraries. The Combination Tax and Revenue Certificates of Obligation, Series 2010 were issued to provide funds for making permanent public improvements and for other public purposes. The Tax Notes, Series 2010A were issued to provide funds for computer and information technology systems.

Business-Type Activities

In March 2010, the City issued $34,500 in Tax Notes, Series 2010. The Notes were issued to provide interim financing to fund capital improvements at the San Antonio International Airport.

In March 2010, $545 of the $156,255 General Improvement Refunding Bonds, Series 2010 was allocated to Solid Waste Management.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2010 were as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AAA	Aaa	AAA
Hotel Occupancy Tax Bonds (Prior Lien)	A+	Aa2	AA-
Hotel Occupancy Tax Bonds (Subordinate Lien - Long Term)	A+	Aa3	A+
Hotel Occupancy Tax Bonds (Variable Rate - Short Term)	A+	Aa3	A+
Hotel Occupancy Tax Notes [1]	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A
Municipal Drainage Utility System Revenue Bonds	AA+	Aa2	AA
Sales Tax Revenue Commercial Paper Notes [2]	A-1+	P-1	F1+

[1] The Hotel Occupancy Tax Notes were no longer outstanding as of August 15, 2010.

[2] The ratings assigned to the Sales Tax Revenue Commercial Paper Notes are based upon the credit rating of the Letter of Credit provider and no application for an underlying rating on the Notes was submitted.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total gross assessed valuation for the fiscal year-ended 2010 was $84,481,611, which provides a debt ceiling of $8,448,161.

Currently Known Facts

On May 20, 2010, the City Council approved the City's collective bargaining agreement with the San Antonio Police Officer's Association (SAPOA), which is effective from October 1, 2009 to September 30, 2014. The projected fiscal impact of the four year agreement is $62,900.

The collective bargaining agreement with the International Association of Fire Fighters Local 624 (Local 624) expired September 30, 2009. The collective bargaining agreement contained an evergreen clause through September 30, 2019. Efforts to negotiate a new four-year agreement with the Local 624 began in January, 2010. To date, no agreement has been reached with the Local 624 and fire services to the public continue to be provided under the evergreen clause.

For more information on other currently known facts, please see Note 18, Subsequent Events.

Requests for Information

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

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2010

City of San Antonio, Texas

Basic Financial Statements

Statement of Net Assets
As of September 30, 2010
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 30,368	$ 2,935	$ 33,303	$ 353,512
Securities Lending Collateral	51,065	5,766	56,831	31,815
Investments	336,365	33,670	370,035	241,316
Receivables, Net	105,564	9,803	115,367	276,004
Due from:				
Fiduciary Funds	509		509	
Other Governmental Agencies	16,421		16,421	9,458
Internal Balances	2,550	(2,550)		
Materials and Supplies, at Cost	6,396	623	7,019	157,105
Prepaid Expenses	1,281	17	1,298	98,663
Other Assets				1,360
Deposits	213		213	
Restricted Assets:				
Cash and Cash Equivalents	82,996	17,077	100,073	156,793
Securities Lending Collateral	74,717	15,902	90,619	
Investments	630,495	134,232	764,727	1,096,838
Receivables, Net	88,175	2,155	90,330	3,696
Prepaid Expenses	16		16	
Deposits	1		1	
Due from:				
Other Governmental Agencies	10,172	6	10,178	
Materials and Supplies, at Cost	17		17	
Total Current Assets	1,437,321	219,636	1,656,957	2,426,560
Noncurrent Assets:				
Capital Assets:				
Non Depreciable	1,926,505	332,724	2,259,229	2,734,472
Depreciable, Net	1,711,150	294,283	2,005,433	7,784,436
Assets Held for Resale				448
Receivables, Net				4,128
Prepaid Expenses				976,579
Net OPEB Asset				38,694
Other Noncurrent Assets				90,621
Unamortized Bond Issuance Costs	35,952	7,845	43,797	19,407
Total Noncurrent Assets	3,673,607	634,852	4,308,459	11,648,785
Total Assets	5,110,928	854,488	5,965,416	14,075,345
Liabilities:				
Current Liabilities:				
Accounts Payable and Other Current Liabilities	119,798	12,282	132,080	444,191
Unearned Revenue	8,987	456	9,443	2,992
Securities Lending Obligation	51,065	5,766	56,831	31,815
Accrued Interest	2	15	17	
Due to:				
Other Governmental Agencies	723		723	1,782
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	61,322	13,556	74,878	28,956
Unearned Revenue	64,549		64,549	
Securities Lending Obligation	74,717	15,902	90,619	
Accrued Interest	15,245	4,812	20,057	26,210
Arbitrage Liability Payable				
Due to:				
Other Governmental Agencies	4,444		4,444	
Total Current Liabilities	400,852	52,789	453,641	535,946
Noncurrent Liabilities:				
Due Within One Year	172,865	26,962	199,827	292,042
Due in More Than One Year	2,010,260	422,845	2,433,105	8,034,392
Total Noncurrent Liabilities	2,183,125	449,807	2,632,932	8,326,434
Total Liabilities	2,583,977	502,596	3,086,573	8,862,380
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,241,952	270,226	2,512,178	4,294,171
Restricted for:				
Debt Service	103,363	31,025	134,388	31,633
Capital Projects	3,987	47,533	51,520	336,954
Operating and Other Reserves				76,128
Perpetual Care:				
Expendable	12,148		12,148	2,972
Nonexpendable	4,802		4,802	
Unrestricted	160,699	3,108	163,807	471,107
Total Net Assets	$ 2,526,951	$ 351,892	$ 2,878,843	$ 5,212,965

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

Amounts are expressed in thousands

Statement of Activities

For the Year-Ended September 30, 2010

(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	$ 117,505	$ 21,565	$ 1,052	$ 504
Public Safety	545,228	10,157	14,684	6,436
Public Works	221,612	53,723	16,446	24,708
Sanitation	8,385	397	6,837	
Health Services	104,667	31,595	21,471	1,069
Culture and Recreation	143,122	33,791	4,307	506
Convention and Tourism	26,437	1,262	20,782	16
Urban Redevelopment and Housing	44,447	20,724	25,201	2,517
Welfare	177,817	72	138,402	213
Economic Development and Opportunity	106,766	2,582	9,532	62,393
Amortization of Bond Related Costs	(7,346)			
Interest on Long-Term Debt	78,291			
Total Governmental Activities	1,566,931	175,868	258,714	98,362
Business-Type Activities:				
Airport System	83,240	63,717		39,574
Parking System	9,135	9,287		
Solid Waste Management	85,058	87,888		582
Total Business-Type Activities	177,433	160,892		40,156
Total Primary Government	$ 1,744,364	$ 336,760	$ 258,714	$ 138,518
Discretely Presented Component Units:				
CPS Energy	$ 1,955,115	$ 1,930,875	$ -	$ 38,991
San Antonio Water System	387,576	369,053		66,771
Brooks Development Authority	13,552	17,119		3,334
City South Management Authority	170			
Main Plaza Conservancy	649	30	580	
Municipal Golf Association - San Antonio	8,022	7,853		386
Port Authority of San Antonio	44,106	41,409	2,914	
SA Energy Acquisition Corporation	53,942	53,042		
San Antonio Development Agency	453	57		
San Antonio Housing Trust Foundation, Inc.	872	108	588	
Total Component Units	$ 2,464,457	$ 2,419,546	$ 4,082	$ 109,482

General Revenues:
- Taxes:
  - Property
  - General Sales and Use
  - Selective Sales and Use
  - Gross Receipts Business
  - Occupancy
  - Penalties and Interest on Delinquent Taxes
- Revenues from Utilities
- Investment Earnings
- Miscellaneous

Adjustment for STP Pension Cost

Transfers, net

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets - Beginning of Fiscal Year (as restated)

Net Assets - End of Fiscal Year

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

Amounts are expressed in thousands

Statement of Activities

For the Year-Ended September 30, 2010

(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (94,384)	$ -	$ (94,384)	$ -
(513,951)		(513,951)	
(126,735)		(126,735)	
(1,151)		(1,151)	
(50,532)		(50,532)	
(104,518)		(104,518)	
(4,377)		(4,377)	
3,995		3,995	
(39,130)		(39,130)	
(32,259)		(32,259)	
7,346		7,346	
(78,291)		(78,291)	
(1,033,987)		(1,033,987)	
	20,051	20,051	
	152	152	
	3,412	3,412	
	23,615	23,615	
(1,033,987)	23,615	(1,010,372)	
			14,751
			48,248
			6,901
			(170)
			(39)
			217
			217
			(900)
			(396)
			(176)
			68,653
406,579		406,579	
223,475		223,475	
5,921		5,921	
35,913		35,913	
59,734		59,734	
3,885		3,885	
293,114		293,114	
6,959	823	7,782	88,670
25,181	480	25,661	81
			9,788
2,780	(2,780)		
1,063,541	(1,477)	1,062,064	98,539
29,554	22,138	51,692	167,192
2,497,397	329,754	2,827,151	5,045,773
$ 2,526,951	$ 351,892	$ 2,878,843	$ 5,212,965

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

Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2010
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:						
Cash and Cash Equivalents	$ 11,989	$ -	$ -	$ -	$ 8,593	$ 20,582
Securities Lending Collateral	21,717				12,286	34,003
Investments	138,496				83,197	221,693
Receivables, Net	94,984				8,437	103,421
Materials and Supplies, at Cost	4,610				470	5,080
Deposits					75	75
Prepaid Expenditures					110	110
Due from:						
Other Funds	43,436				761	44,197
Other Governmental Agencies, Net	3,494				12,853	16,347
Restricted Assets:						
Cash and Cash Equivalents		23,762	924	18,013	40,297	82,996
Securities Lending Collateral			1,873	31,410	41,434	74,717
Investments		85,734	12,592	211,120	321,049	630,495
Receivables, Net		7,391	25,545	21	55,218	88,175
Materials and Supplies, at Cost			17			17
Deposits					1	1
Prepaid Expenditures					16	16
Due from:						
Other Funds		481	3,252	9,200	11,041	23,974
Other Governmental Agencies, Net					10,172	10,172
Total Assets	$ 318,726	$ 117,368	$ 44,203	$ 269,764	$ 606,010	$ 1,356,071
Liabilities and Fund Balances:						
Liabilities:						
Vouchers Payable	$ 8,328	$ -	$ -	$ -	$ 4,775	$ 13,103
Accounts Payable - Other	6,292				7,464	13,756
Accrued Payroll	20,252				3,019	23,271
Accrued Leave Payable	11,477				935	12,412
Deferred Revenue	19,287					19,287
Securities Lending Obligation	21,717				12,286	34,003
Due To:						
Other Funds	1,737				11,663	13,400
Other Governmental Agencies					12	12
Restricted Liabilities:						
Vouchers Payable			6,236	3	29,865	36,104
Accounts Payable - Other		47	3,056		18,111	21,214
Accrued Payroll			1,070		505	1,575
Accrued Leave Payable					21	21
Deferred Revenue		6,737	4,129		60,420	71,286
Securities Lending Obligation			1,873	31,410	41,434	74,717
Amounts Held in Trust					2,429	2,429
Due to:						
Other Funds		1,501	30,661	30	24,124	56,316
Other Governmental Agencies			1,575		2,869	4,444
Total Liabilities	89,090	8,285	48,600	31,443	219,932	397,350
Fund Balances:						
Reserved:						
Reserved for Encumbrances	25,916				311,848	337,764
Reserved for Materials and Supplies	4,610		17		470	5,097
Reserved for Deposits					76	76
Reserved for Prepaid Expenditures					126	126
Reserved for Debt Service		109,083				109,083
Unreserved:						
Designated: General	97,762					97,762
Designated: Special Revenue					4,183	4,183
Designated: Permanent					4,802	4,802
Undesignated: General	101,348					101,348
Undesignated: Special Revenue			(4,414)		100,460	96,046
Undesignated: Capital Projects				238,321	(48,035)	190,286
Undesignated: Permanent					12,148	12,148
Total Fund Balances	229,636	109,083	(4,397)	238,321	386,078	958,721
Total Liabilities and Fund Balances	$ 318,726	$ 117,368	$ 44,203	$ 269,764	$ 606,010	$ 1,356,071

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

Amounts are expressed in thousands

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of September 30, 2010
(In Thousands)

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

Fund Balances - Total Governmental Funds		$	958,721
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental Capital Assets:			
Land	1,364,427		
Other Non-Depreciable Assets	500		
Construction In Progress	479,769		
Non-Depreciable Intangible Assets	81,809		
Depreciable Intangible Assets	120		
Buildings	733,926		
Improvements	373,383		
Infrastructure	2,382,971		
Machinery and Equipment	225,588		
Less: Accumulated Depreciation	(2,061,880)		
Total Governmental Capital Assets			3,580,613
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 as revenues, but as deferred revenues.			
Revenues previously recorded as deferred in the fund financial statements	25,234		
Unearned revenues previously recorded as income in the fund financial statements	(8,197)		
Net revenues recognized			17,037
Long-term receivables applicable in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			1,559
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.			108,773
Long-term liabilities are not due and payable in the current period, neither are associated unamortized assets available financial resources and, therefore, are not reported in the governmental funds.			
Governmental Bonds Payable	(1,822,939)		
Commercial Paper Payable	(14,370)		
Unamortized Discount/(Premium) on Bonds, Net	(64,026)		
Deferred Amount on Refunding	25,374		
Capital Lease Liability	(5,394)		
Notes Payable	(50,880)		
Unamortized Bond Issuance Costs	35,952		
Net OPEB Obligation	(52,986)		
Accrued Interest Payable	(15,245)		
Pollution Remediation Payable	(1,825)		
Compensated Absences	(173,413)		
			(2,139,752)
Net Assets of Governmental Activities		$	2,526,951

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

Amounts are expressed in thousands

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year-Ended September 30, 2010
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes:						
Property	$ 246,864	$ 147,685	$ -	$ -	$ 10,217	$ 404,766
General Sales and Use	188,741				34,734	223,475
Selective Sales and Use	5,921					5,921
Gross Receipts Business	35,913					35,913
Occupancy					59,734	59,734
Penalties and Interest on Delinquent Taxes	2,336	1,393			156	3,885
Licenses and Permits	7,769					7,769
Intergovernmental	7,768		154,096		107,451	269,315
Revenues from Utilities	292,726					292,726
Charges for Services	45,850		192		98,251	144,293
Fines and Forfeits	11,506					11,506
Miscellaneous	10,267	384	2,583		21,159	34,393
Investment Earnings	1,832	843	8	552	3,148	6,383
Contributions			16,581		66,960	83,541
Total Revenues	857,493	150,305	173,460	552	401,810	1,583,620
Expenditures:						
Current:						
General Government	81,117	1,807	1,077	77	7,976	92,054
Public Safety	501,630		14,426		6,926	522,982
Public Works	42,518		17,524		54,285	114,327
Health Services	73,343		21,226		1,773	96,342
Sanitation	3,138		166		5,292	8,596
Welfare	38,453		117,911		20,597	176,961
Culture and Recreation	73,884		1,865		47,453	123,202
Convention and Tourism					21,240	21,240
Urban Redevelopment and Housing			1,375		40,311	41,686
Economic Development and Opportunity	2,607		195		103,843	106,645
Capital Projects					287,722	287,722
Debt Service:						
Principal Retirement		147,085			5,520	152,605
Interest		60,886			14,728	75,614
Issuance Costs		1,303		1,651	564	3,518
Total Expenditures	816,690	211,081	175,765	1,728	618,230	1,823,494
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,803	(60,776)	(2,305)	(1,176)	(216,420)	(239,874)
Other Financing Sources (Uses):						
Issuance of Long-Term Debt		155,710		200,350	57,120	413,180
Payments to Refunded Bond Escrow Agent		(176,569)			(8,939)	(185,508)
Premium/(Discount) on Long-Term Debt		20,685		1,301	5,694	27,680
Transfers In	36,581	57,122	8,925		258,880	361,508
Transfers Out	(54,255)	(13)	(4,295)	(59,268)	(246,769)	(364,600)
Total Other Financing Sources (Uses)	(17,674)	56,935	4,630	142,383	65,986	252,260
Net Change in Fund Balances	23,129	(3,841)	2,325	141,207	(150,434)	12,386
Fund Balances, October 1 (as restated)	206,507	112,924	(6,722)	97,114	536,512	946,335
Fund Balances, September 30	$ 229,636	$ 109,083	$ (4,397)	238,321	$ 386,078	$ 958,721

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

Amounts are expressed in thousands

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

Year-Ended September 30, 2010

(In Thousands)

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

Net change in Fund Balances - Total Governmental Funds		$ 12,386
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for Capital Assets	253,936	
Pollution Remediation Capitalization	417	
Less: Current Year Depreciation	(117,779)	
Less: Current Year Deletions	(10,430)	126,144
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		6,236
The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond, Note and Loan Amounts Issued	(413,180)	
(Premium)/Discount on Long-term Debt	(27,680)	
Bond Issuance Costs	3,518	
Payments to Escrow Agent	185,508	
Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net	7,346	
Principal Payments	152,605	(91,883)
The following 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:		
Interest Expense	(2,680)	
Compensated Absences	(1,192)	
Net OPEB Obligation	(16,438)	
Pollution Remediation	(504)	
Principal Amounts on Leases and Notes	4,792	
Arbitrage	182	(15,840)
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.		(7,489)
Change in Net Assets of Governmental Activities		$ 29,554

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 1,635	$ 1,300	$ 2,935	$ 9,786
Securities Lending Collateral	2,723	3,043	5,766	17,062
Investments	18,304	15,366	33,670	114,672
Receivables, Net:				
Accounts	997	348	1,345	561
Accrued Interest	2	2	4	10
Accrued Revenue	1,738	6,716	8,454	13
Due from:				
Other Funds	235	1,406	1,641	1,349
Other Governmental Agencies, Net				74
Materials and Supplies, at Cost	540	83	623	1,316
Prepaid Expenses	17		17	1,171
Deposits				138
Total Unrestricted Assets	26,191	28,264	54,455	146,152
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	7,533	762	8,295	
Securities Lending Collateral		789	789	
Investments	21,350	6,209	27,559	
Receivables-Accrued Interest		1	1	
Due From Other Funds		28	28	
Construction Accounts:				
Cash and Cash Equivalents	4,151	52	4,203	
Securities Lending Collateral	7,795	90	7,885	
Investments	52,396	607	53,003	
Receivables-Accrued Interest	5		5	
Due From Other Funds	185		185	
Other Restricted Assets:				
Cash and Cash Equivalents	18		18	
Securities Lending Collateral	32		32	
Investments	215		215	
Due From Other Governmental Agencies, Net	6		6	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	3,622	939	4,561	
Securities Lending Collateral	6,315	881	7,196	
Investments	42,445	11,010	53,455	
Accrued Revenue	2,141		2,141	
Receivables-Accrued Interest	6	2	8	
Due From Other Funds	806		806	
Total Restricted Assets	149,021	21,370	170,391	
Total Current Assets	175,212	49,634	224,846	146,152
Noncurrent Assets:				
Capital Assets:				
Land	5,322	9,018	14,340	
Buildings	200,673	25,347	226,020	178
Improvements	225,666	10,457	236,123	244
Machinery and Equipment	14,603	28,897	43,500	164,067
Construction in Progress	317,647	737	318,384	
Total Capital Assets	763,911	74,456	838,367	164,489
Less: Accumulated Depreciation	190,700	20,660	211,360	107,447
Net Capital Assets	573,211	53,796	627,007	57,042
Unamortized Bond Issuance Costs	7,444	401	7,845	
Total Noncurrent Assets	580,655	54,197	634,852	57,042
Total Assets	$ 755,867	$ 103,831	$ 859,698	$ 203,194

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Vouchers Payable	$ 660	$ 1,440	$ 2,100	$ 7,317
Accounts Payable-Other	5,423	2,307	7,730	3,532
Claims Payable				57,094
Accrued Payroll	1,126	1,326	2,452	1,725
Accrued Interest		15	15	2
Current Portion of Accrued Leave Payable	372	340	712	453
Due to Other Governmental Agencies				711
Securities Lending Obligation	2,723	3,043	5,766	17,062
Unearned Revenue	456		456	
Current Portion of Capital Lease Liability		7,688	7,688	103
Current Portion of Accrued Landfill Postclosure Costs		177	177	
Due to Other Funds	806	328	1,134	735
Total Payable from Current Unrestricted Assets	11,566	16,664	28,230	88,734
Payable from Restricted Assets:				
Vouchers Payable	13,526	6	13,532	
Accrued Interest	4,631	181	4,812	
Securities Lending Obligation	14,142	1,760	15,902	
Current Portion of Bonds, Certificates and Notes	17,210	935	18,145	
Due to Other Funds	77	9	86	
Current Portion of Unamortized Premium/(Discount)	916	50	966	
Current Portion of Deferred Amount on Refunding	(546)	(180)	(726)	
Other Payables	22	2	24	
Total Payable from Restricted Assets	49,978	2,763	52,741	
Total Current Liabilities	61,544	19,427	80,971	88,734
Noncurrent Liabilities:				
Bonds, Certificates and Notes	361,815	19,420	381,235	
Unamortized Premium/(Discount)	7,954	247	8,201	
Deferred Amount on Refunding	(1,065)	(1,732)	(2,797)	
Accrued Leave Payable	1,858	1,699	3,557	2,262
Capital Lease Liability		17,927	17,927	299
Net OPEB Obligation	5,370	6,772	12,142	7,116
Pollution Remediation Liability	700		700	
Accrued Landfill Postclosure Costs		1,880	1,880	
Total Noncurrent Liabilities	376,632	46,213	422,845	9,677
Total Liabilities	438,176	65,640	503,816	98,411
Net Assets:				
Invested In Capital Assets, Net of Related Debt	243,474	26,752	270,226	56,640
Restricted:				
Debt Service	24,241	6,784	31,025	
Capital Projects	35,595	11,938	47,533	
Unrestricted	14,381	(7,283)	7,098	48,143
Total Net Assets	$ 317,691	$ 38,191	$ 355,882	$ 104,783
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(3,990)	
Net assets of business-type activities.			$ 351,892	

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

Amounts are expressed in thousands

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 63,717	$ 96,819	$ 160,536	$ 227,656
Total Operating Revenues	63,717	96,819	160,536	227,656
Operating Expenses:				
Personal Services	28,706	34,547	63,253	39,650
Contractual Services	18,841	25,769	44,610	41,466
Commodities	1,690	9,463	11,153	2,373
Materials				20,198
Claims				107,958
Other	6,065	16,580	22,645	13,949
Depreciation	10,659	4,034	14,693	21,342
Total Operating Expenses	65,961	90,393	156,354	246,936
Operating Income (Loss)	(2,244)	6,426	4,182	(19,280)
Nonoperating Revenues (Expenses):				
Investment Earnings	699	124	823	552
Other Nonoperating Revenue	16,939	480	17,419	1,657
Gain (Loss) on Sale of Capital Assets	(458)	356	(102)	1,319
Interest and Debt Expense	(15,153)	(1,985)	(17,138)	(17)
Other Nonoperating Expense	(747)	(293)	(1,040)	(35)
Total Nonoperating Revenues (Expenses)	1,280	(1,318)	(38)	3,476
Change in Net Assets Before Contributions and Transfers	(964)	5,108	4,144	(15,804)
Capital Contributions	22,635	582	23,217	
Transfers In (Out):				
Transfers In		580	580	9,897
Transfers Out	(394)	(2,966)	(3,360)	(4,025)
Total Transfers In (Out)	(394)	(2,386)	(2,780)	5,872
Change In Net Assets	21,277	3,304	24,581	(9,932)
Net Assets - October 1	296,414	34,887		114,715
Net Assets - September 30	$ 317,691	$ 38,191		$ 104,783
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(2,443)	
Change in Net Assets of Business-Type Activities.			$ 22,138	

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

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2010

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 64,386	$ 96,566	$ 160,952	$ 227,831
Cash Payments to Suppliers for Goods and Services	(23,132)	(52,171)	(75,303)	(177,160)
Cash Payments to Employees for Service	(27,094)	(32,328)	(59,422)	(37,405)
Cash Received from Other Nonoperating Revenues	16,939	480	17,419	1,657
Net Cash Provided by Operating Activities	31,099	12,547	43,646	14,923
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds		580	580	9,897
Transfers Out to Other Funds	(394)	(2,966)	(3,360)	(4,025)
Due to Other Funds	(1,961)	(3,575)	(5,536)	587
Due from Other Funds	2,381	9,697	12,078	184
Net Cash Provided by Non-Capital Financing Activities	26	3,736	3,762	6,643
Cash Flows from Capital and Related Financing Activities:				
Contributed Capital	22,635	582	23,217	
Acquisitions and Construction of Capital Assets	(98,691)	(1,736)	(100,427)	(15,860)
Proceeds from Issuance of Long-Term Debt	34,500	545	35,045	
Proceeds from Issuance of Notes and Leases		6,324	6,324	
Principal Payments or Refundings on Long-Term Debt	(15,855)	(1,385)	(17,240)	
Interest and Fees Paid on Long-Term Debt	(15,420)	(1,128)	(16,548)	
Interest Paid on Notes and Leases		(904)	(904)	(15)
Principal Payments on Notes and Leases		(6,544)	(6,544)	(224)
Proceeds from Sale of Assets	12	7	19	4,233
Net Cash (Used for) Capital and Related Financing Activities	(72,819)	(4,239)	(77,058)	(11,866)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(182,503)	(41,483)	(223,986)	(139,459)
Maturity of Investment Securities	221,939	30,651	252,590	131,045
Purchases of Investments for Securities Lending	(16,865)	(4,803)	(21,668)	(17,062)
Proceeds from Cash Collected for Securities Lending Cash Collateral	16,865	4,803	21,668	17,062
Investments Earnings	693	119	812	510
Net Cash Provided by (Used for) Investing Activities	40,129	(10,713)	29,416	(7,904)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,565)	1,331	(234)	1,796
Cash and Cash Equivalents, October 1	18,524	1,722	20,246	7,990
Cash and Cash Equivalents, September 30	$ 16,959	$ 3,053	$ 20,012	$ 9,786

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

Amounts are expressed in thousands

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	$ (2,244)	$ 6,426	$ 4,182	$ (19,280)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	10,659	4,034	14,693	21,342
Other Nonoperating Revenues	16,939	480	17,419	1,657
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	1,959	(211)	1,748	213
(Increase) in Accrued Revenues	(795)	(92)	(887)	(3)
(Increase) Decrease in Due from Other Governmental Agencies	38		38	(35)
(Increase) Decrease in Materials and Supplies	12	15	27	(91)
(Increase) Decrease in Prepaid Expenses	5		5	(148)
Decrease in Deposits		50	50	
Increase (Decrease) in Vouchers Payable	3,231	(5)	3,226	2,496
Increase in Claims Payable				6,052
Increase (Decrease) in Accounts Payable - Other	216	(73)	143	478
Increase in Accrued Payroll	108	212	320	108
(Decrease) in Accrued Leave Payable	(8)	(113)	(121)	(89)
(Decrease) in Landfill Postclosure Liability		(296)	(296)	
Increase in Net OPEB Obligation	1,512	2,120	3,632	2,223
(Decrease) in Unearned Revenue	(533)		(533)	
Net Cash Provided by Operating Activities	$ 31,099	$ 12,547	$ 43,646	$ 14,923
Noncash Investing, Capital and Financing Activities				
Acquisitions and Construction of Capital Assets from Debt Proceeds	$ -	$ 1,171	$ 1,171	$ -

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, 2010
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 75,203	$ 2	$ 1,507
Security Lending Collateral	118,325	3	1,398
Investments:			
Common Stock	828,540		
U.S. Government Securities	88,870	22	8,790
Corporate Bonds	434,308		
Hedge Funds	265,923		
Real Estate	163,929		
Alternative	245,622		
Receivables:			
Accounts	7,762		270
Accrued Interest	5,800		
Accrued Revenue	3,500		
Total Current Assets	2,237,782	27	11,965
Capital Assets:			
Machinery and Equipment	132		
Buildings	767		
Total Capital Assets	899		
Less: Accumulated Depreciation	428		
Net Capital Assets	471		
Total Assets	$ 2,238,253	$ 27	$ 11,965
Liabilities:			
Vouchers Payable	$ 2,883	$ -	$ 45
Accounts Payable - Other	9,112		10,013
Claims Payable	2,961		
Accrued Payroll	161		
Due to Other Funds			509
Securities Lending Obligation	118,325	3	1,398
Total Liabilities	133,442	3	$ 11,965
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 2,104,811	$ 24	

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

Amounts are expressed in thousands

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year-Ended September 30, 2010
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 86,763	$ -
Employee	43,436	
Total Contributions	130,199	
Investment Earnings:		
Net Increase in Fair Value of Investments	138,692	
Real Estate Income, Net	1,364	
Interest and Dividends	33,518	
Securities Lending	2,105	
Other Income	436	
Total Investment Earnings	176,115	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(9,955)	
Securities Lending Expenses:		
Borrower Rebates	(28)	
Lending Fees	(125)	
Net Investment Earnings	166,007	
Total Additions	296,206	
Deductions:		
Benefits	127,693	
Refunds of Contributions	871	
Administrative Expense	3,753	
Total Deductions	132,317	
Change in Net Assets	163,889	
Net Assets - October 1	1,940,922	24
Net Assets - September 30	$ 2,104,811	$ 24

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

Amounts are expressed in thousands

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2010
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 298,818	$ 32,138	$ 22,556	$ 353,512
Cash Collateral from Securities Lending	31,815			31,815
Investments	102,996	137,879	441	241,316
Receivables, Net:				
Notes			7,518	7,518
Accounts	202,060	41,580	6,157	249,797
Accrued Interest	17,660	997	32	18,689
Materials and Supplies, at Cost	151,014	5,932	159	157,105
Due from Other Governmental Agencies			9,458	9,458
Prepaid Expenses	61,796	2,499	34,368	98,663
Other Assets			1,360	1,360
Total Unrestricted Assets	866,159	221,025	82,049	1,169,233
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	3,210		19,448	22,658
Investments		37,010	7,445	44,455
Receivables - Accrued Interest			96	96
Capital Projects Accounts:				
Cash and Cash Equivalents	13,913	96,331		110,244
Investments	73,707	183,083		256,790
Receivables - Accrued Interest	29			29
Ordinance Accounts:				
Investments	331,608			331,608
Receivables - Accrued Interest	1,604			1,604
Other Restricted Accounts:				
Cash and Cash Equivalents	21,979	3	1,909	23,891
Investments	373,777	90,208		463,985
Receivables - Accrued Interest	1,967			1,967
Total Restricted Assets	821,794	406,635	28,898	1,257,327
Total Current Assets	1,687,953	627,660	110,947	2,426,560
Noncurrent Assets:				
Capital Assets:				
Land	107,150	78,814	40,010	225,974
Infrastructure			56,993	56,993
Buildings			241,151	241,151
Utility Plant in Service	8,697,358	3,503,761		12,201,119
Machinery and Equipment		146,858	8,307	155,165
Construction in Progress	1,893,686	427,971	29,749	2,351,406
Other Intangible Assets		157,092		157,092
Nuclear Fuel	643,545			643,545
Total Capital Assets	11,341,739	4,314,496	376,210	16,032,445
Less: Accumulated Depreciation	4,277,546	1,140,232	95,759	5,513,537
Assets Held for Resale			448	448
Net Capital Assets	7,064,193	3,174,264	280,899	10,519,356
Other Noncurrent Assets:				
Receivables			4,128	4,128
Prepaid Expenses	417,234		559,345	976,579
Net OPEB Asset	38,694			38,694
Other Noncurrent Assets	54,303		36,318	90,621
Unamortized Bond Issuance Costs		19,407		19,407
Total Noncurrent Assets	7,574,424	3,193,671	880,690	11,648,785
Total Assets	$ 9,262,377	$ 3,821,331	$ 991,637	$ 14,075,345

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2010
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Accounts Payable and Other Current Liabilities	$ 401,945	$ 32,634	$ 9,612	$ 444,191
Securities Lending Obligation	31,815			31,815
Unearned Revenue			2,992	2,992
Due to Other Governmental Agencies			1,782	1,782
Current Portion of Long-term Lease/Notes Payable			3,358	3,358
Current Portion of Deferred Lease/Leaseback	22,561			22,561
Current Portion of Other Payables	27,950	4,785	8,207	40,942
Total Payable from Current Unrestricted Assets	484,271	37,419	25,951	547,641
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest		9,499	16,711	26,210
Current Portion of Bonds and Certificates	162,235	38,590	21,756	222,581
Current Portion of Commercial Paper		2,600		2,600
Other Payables		28,956		28,956
Total Payable from Restricted Assets	162,235	79,645	38,467	280,347
Total Current Liabilities	646,506	117,064	64,418	827,988
Noncurrent Liabilities:				
Bonds and Certificates (Net of Current Portion)	3,981,260	1,721,110	633,889	6,336,259
Commercial Paper (Net of Current Portion)	350,000	171,050		521,050
Unamortized Premium/(Discount) on Bonds and Certificates	137,332	6,873	34,366	178,571
Deferred Amount on Refunding	(61,308)	(22,884)		(84,192)
Long-Term Lease/Notes Payable (Net of Current Portion)			41,761	41,761
Deferred Lease/Leaseback (Net of Current Portion)	475,651			475,651
Net OPEB Obligation (Net of Current Portion)		47,093		47,093
Other Payables (Net of Current Portion)	513,786	2,417	1,996	518,199
Total Noncurrent Liabilities	5,396,721	1,925,659	712,012	8,034,392
Total Liabilities	6,043,227	2,042,723	776,430	8,862,380
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,585,351	1,521,466	187,354	4,294,171
Restricted for:				
Debt Service	3,210	27,511	912	31,633
Capital Projects	335,202		1,752	336,954
Operating and Other Reserves		76,128		76,128
Perpetual Care:				
Expendable			2,972	2,972
Unrestricted	295,387	153,503	22,217	471,107
Total Net Assets	$ 3,219,150	$ 1,778,608	$ 215,207	$ 5,212,965

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

Amounts are expressed in thousands

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2010
(In Thousands)

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
CPS Energy	$ 1,955,115	$ 1,930,875	$ -	$ 38,991
San Antonio Water System	387,576	369,053		66,771
Nonmajor Component Units	121,766	119,618	4,082	3,720
Total	$ 2,464,457	$ 2,419,546	$ 4,082	$ 109,482

General Revenues:
Investment Earnings
Miscellaneous
Adjustment for STP Pension Cost

Total General Revenues and Special Items

Change in Net Assets
Net Assets - Beginning of Fiscal Year (as restated)

Net Assets - End of Fiscal Year

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

Amounts are expressed in thousands

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2010
(In Thousands)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
$ 14,751	$ -	$ -	$ 14,751
	48,248		48,248
		5,654	5,654
14,751	48,248	5,654	68,653
83,060	4,511	1,099	88,670
		81	81
9,788			9,788
92,848	4,511	1,180	98,539
107,599	52,759	6,834	167,192
3,111,551	1,725,849	208,373	5,045,773
$ 3,219,150	$ 1,778,608	$ 215,207	$ 5,212,965

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

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2010

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year-Ended September 30, 2010

Note 1	Summary of Significant Accounting Policies	28
Note 2	Property Taxes	49
Note 3	Cash and Cash Equivalents, Securities Lending and Investments	50
Note 4	Capital Assets	75
Note 5	Receivables and Payables	80
Note 6	Long-Term Debt	82
Note 7	Commercial Paper Programs	103
Note 8	Pension and Retirement Plans	106
Note 9	Postemployment Retirement Benefits	118
Note 10	CPS Energy South Texas Project (STP)	127
Note 11	Commitments and Contingencies	132
Note 12	Pollution Remediation Obligation	143
Note 13	Risk Financing	144
Note 14	Interfund Transfers	153
Note 15	Deficits in Fund Balances/Net Assets	154
Note 16	Other Disclosures	154
Note 17	Prior Period Restatement	155
Note 18	Subsequent Events	156

Note 1 Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2009, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units

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

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

Convention Center Hotel Finance Corporation
111 Soledad St., 5th Floor
San Antonio, TX 78205
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-4478

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

Empowerment Zone Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Pat DiGiovanni
Telephone No. (210) 207-6912

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

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

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Health Facilities Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

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

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

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

San Antonio Industrial Development Authority
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

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

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

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

San Antonio Texas Municipal Facilities Corporation
111 Soledad St., 5th Floor
San Antonio, TX 78205
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-4478

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

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

Starbright Industrial Development Corporation
111 Soledad St., 5th Floor
San Antonio, TX 78205
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-4478

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

HemisFair Park Area Redevelopment Corporation
Office of the City Manager
100 Military Plaza
San Antonio, Texas 78205
Contact: Lori Houston
Telephone No. (210) 207-2129

The HemisFair Park Area Redevelopment Corporation (HPARC) was established in fiscal year 2009 in accordance with state laws for the purposes of, and to act on behalf of the City in, assisting with acquiring property, planning, developing, constructing, managing and financing projects within HemisFair Park and its surrounding area in order to promote economic development, employment, and to stimulate business, housing, tourism, and commercial activity within the City. The HPARC is governed by eleven members approved by City Council. As HPARC had no activity through September 30, an audit is not deemed necessary in fiscal year 2010.

San Antonio Education Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

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

Westside Development Corporation
2300 W. Commerce, Ste 207
San Antonio, Texas 78207-3839
Contact: Ramon Flores
Telephone No. (210) 207-8204

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

(The remainder of this page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Economic Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

The San Antonio Economic Development Corporation (SAEDC) was established in fiscal year 2010 as a nonprofit corporation to promote, assist, and enhance economic development activities for the City. SAEDC was organized for the purposes of undertaking any statute-authorized projects to benefit and accomplish the public purpose of promoting economic development in the City. The affairs of SAEDC are managed by a Board of Directors appointed by the City Council of San Antonio. City Council may remove a director at any time without cause. SAEDC's budget is not effective until adopted by City Council.

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

San Antonio Housing Trust Public Facility Corporation (SAHTPFC) was established in fiscal year 2010 as a nonprofit corporation, organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. SAHTPFC was created to provide a tool to develop affordable housing. SAHTPFC enables housing resources to be better coordinated and directed to accomplish the City's revitalization goals, and gives the City another tool to establish housing in downtown and other areas targeted for development. SAHTPFC's Board of Directors is appointed by the City Council of San Antonio, and consists of five City Council members.

The blended component unit with a different fiscal year-end from the City is the San Antonio Public Library Foundation with a fiscal year-end of December 31st. It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The City noted that HFDC, IDA, SAHEA and WDC did not complete audits of their fiscal year 2010 activities in time for the City to include in its financial statements. It is management's belief that the exclusion of these component units' statements does not materially misrepresent the City's financial statements. The City restated beginning fund balance/net assets for these component units as included in Note 17, Prior Period Restatement.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity as discretely presented component units.

Brooks Development Authority
1 B.D.A. Crossing, Ste 100
Brooks City-Base, Texas 78235-5355
Contact: Bart Sanchez
Telephone No. (210) 678-3306

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

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

City South Management Authority
P.O. Box 839966
San Antonio, Texas 78283
Contact: Jesus Garza
Telephone No. (210) 207-7950

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

CPS Energy
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

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

Main Plaza Conservancy
111 Soledad, Suite 825
San Antonio Texas 78205
Contact: Jane Pauley-Flores
Telephone No. (210) 225-9800

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

Municipal Golf Association – San Antonio
2315 Avenue B
San Antonio, Texas 78215
Contact: James E. Roschek
Telephone No. (210) 298-5999

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

(The remainder of this page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Port Authority of San Antonio dba Port San Antonio
907 Billy Mitchell Blvd
San Antonio, Texas 78226
Contact: Dan Ferris
Telephone No. (210) 362-7821

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

Urban Renewal Agency of the City of San Antonio dba San Antonio Development Agency
Center City Development-
City of San Antonio
1400 S. Flores
San Antonio, Texas 78204
Contact: Adil A. Elgaili
Telephone No. (210) 207-7527

The Urban Renewal Agency of the City of San Antonio dba San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council of San Antonio. SADA receives a majority of its operating funds from the sale of land owned by the entity. SADA is governed by a seven-member board of commissioners appointed by the City Council.

SA Energy Acquisition Public Facility Corporation
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

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

(The remainder of this page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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

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

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

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

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

San Antonio Housing Trust Reinvestment Corporation (SAHTRC) was created to act as a duly constituted authority of the City and is authorized by the City Council of San Antonio to aid, assist, and act on behalf of the City to promote for the common good and general welfare of reinvestment zones. As SAHTRC had no activity through September 30, an audit is not deemed necessary in fiscal year 2010.

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Related Organizations

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

Basic Financial Statements - GASB Statement No. 34

Government-Wide and Fund Financial Statements - The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. Additionally, for the most part, the effect of interfund activity has been removed from the statements.

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

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

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

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

(The remainder of this page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

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

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

- The General Fund is always presented as a major fund.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in enterprise funds.
- The Categorical Grant-In-Aid Fund, a special revenue fund, accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, HOME Investment Partnership Grants, and the American Recovery and Reinvestment Act Grants.
- The 2007 General Obligation Bonds Fund, a capital projects fund, accounts for the receipt and disbursement of $550,000 in bond sales for physical infrastructure development and improvement projects approved by a bond election held on May 12, 2007. These projects were within five areas: streets and pedestrian, drainage improvements, parks and recreation, library and public health.

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

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

Governmental Funds

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

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

The governmental funds that have legally adopted budgets are the General Fund, Debt Service Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, American Recovery and Reinvestment Act, and most Community Services Funds), and San Jose Burial Park Fund.

Proprietary Funds

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

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

Fiduciary Funds

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

Measurement Focus and Basis of Accounting

Primary Government (City)

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

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Primary Government (City) (Continued)

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

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

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets and revenues are recognized in the accounting period in which they become available and measurable. “Available” means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, investment earnings, and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City’s availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available.

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

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, accrued leave, debt service expenditures, claims and judgments, arbitrage rebates, postemployment obligations, and pollution remediation are recorded only when the liability is matured.

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Primary Government (City) (Continued)

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

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

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

CPS Energy

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems.

CPS Energy revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. Rate schedules include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy has used historical information from the relative prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process has involved an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments.

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

Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

CPS Energy (Continued)

Nonoperating revenue consists primarily of investment income, including fair market value adjustments. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 is also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating revenue when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2010 were recorded net of expenses.

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

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

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

To more accurately reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate was modified effective for fiscal year 2010 to include both a debt and an equity component. The new blended rate is composed of 50.0% equity and 50.0% debt based on construction funding forecasts for fiscal year 2010. Both the investment rate as well as the debt rate will continue to be reviewed quarterly to determine if any adjustments are necessary. Projects costing more than $100,000 use alternate AFUDC rates, which reflect the method by which they are funded.

San Antonio Water System (SAWS)

SAWS revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed.

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations

In fiscal year 2010, the City implemented the following GASB Statements:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* establishes consistent guidance on recognition of intangible assets. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. This Statement also establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also establishes guidance specific to intangible assets related to amortization. It provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions, and if there are no factors that limit the useful life of an intangible asset, it is considered to have an indefinite useful life. It is the determination of the City that implementation of GASB Statement No. 51 did not materially impact the City's Financial Statements as the City's right of ways and internally generated systems have traditionally been recorded in construction in progress (CIP) and capitalized and depreciated, where deemed appropriate, upon the project's completion. The City did not restate beginning balances for implementation of this Statement due to immateriality of the $398 reduction to CIP. All indefinite life right of ways were previously recorded in non-depreciable assets (Land), and transferred to nondepreciable intangible assets as part of this implementation.

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

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, is intended to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United Statements Bankruptcy Code. It is the determination of the City that requirements of GASB Statement No. 58 are not applicable to the City of San Antonio.

Future GASB Statement Implementations

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement provides for amendments to the National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*; GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools;* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The City will implement this Statement in fiscal year 2011.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs). The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* improves financial reporting for a governmental financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement provides amendments to Statement No. 14, *The Financial Reporting Entity,* and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The requirements of this Statement are effective for fiscal periods beginning after June 15, 2012. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

The City has not fully determined the effects that implementation of Statements No. 54, No. 57, No. 59, No. 60, No. 61 and No. 62 will have on the City's financial statements.

Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2010, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Investments (Continued)

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

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

Materials and Supplies and Prepaid Items

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

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

Capital Assets and Depreciation

Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, furniture and office equipment, and intangible assets (e.g. right of ways, easements, internally generated software). Some intangible assets may have an indefinite life. For those assets, depreciation is not calculated. The estimated useful lives and capitalization thresholds applied are as follows:

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

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy

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

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

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

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2010.

The estimated useful lives of capital assets were as follows:

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

Capitalization thresholds contained in CPS Energy's capitalization policy for fiscal year 2010 were as follows**:**

Land, land improvements and certain easements	Capitalize All
Buildings and building improvements	$ 10
Computer software - purchased	10
Computer software – internally developed	100
Computer software – enhancements/upgrades	100
Computer hardware	3
All other assets	3

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $5. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from developers, are recorded at estimated fair market value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. Intangible assets, including water rights, which are considered to have indefinite useful lives, are not amortized but are periodically reviewed for potential impairment. The following table shows an estimated average of useful lives used in providing for depreciation of capital assets:

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

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, investment earnings within the Debt Service Fund, and transfers from other funds.

Accrued Leave

Primary Government (City)

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for both civilian and uniformed employees. The matured portion of the City's compensatory time is also accrued annually for both civilian and uniformed employees. In addition, the City accrues the matured portion of its uniformed employees' accrued sick leave, holiday, and bonus pay.

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

Note 1 Summary of Significant Accounting Policies (Continued)

Accrued Leave (Continued)

CPS Energy

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

San Antonio Water System (SAWS)

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

Insurance

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

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

The City also provides employee health insurance, which includes a pro rata share of retiree health benefits, Workers' Compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering Workers' Compensation claims that occurred prior to September 30, 1986. Workers' Compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2010, the City has excess Workers' Compensation coverage through Star Insurance Company. The City records all Workers' Compensation loss contingencies, including claims incurred but not reported. The City determines and accrues Workers' Compensation liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

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

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

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent." A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 13, Risk Financing.

(The remainder of this page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Equity

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

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 2010, general government expenditures were reduced by $9,360, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of $6,940 and $2,420, respectively.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are amortized over the life of the debt. Debt refundings (carrying value of the debt net of any unamortized costs of the old debt) are deferred and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

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

Bond Issuance Costs

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

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

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 user fees for requested goods or services. Building maintenance, a component of the Other Internal Services Fund, charges are based on the space occupied by departments. Information Technology Services also charges a monthly amount based on the number of personnel positions in each department. Through the tracking of these charges to the applicable departments, the net income or loss is allocated back to the user department, based on actual charges incurred.

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

Application of Restricted and Unrestricted Net Assets

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

Unreserved Designated Fund Balance

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

- The General Fund has designated unreserved fund balances of $5,289 for budgeted carryforwards, $547 for special projects, $79,837 reserve for revenue loss, $11,954 for Public, Educational and Government Access Funding (PEG) revenues, $112 for the Streets Endowment Funds, and $23 for Human Development Services Funds.
- Special Revenue Funds designated fund balance consists of a reservation of $4,183 in Hotel Occupancy Taxes received for the Grand Hyatt (Convention Center Hotel) that are pledged to cover debt repayments.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund of $2,366, the endowment for the San Antonio Public Library Foundation of $1,920, and the endowment for the Boza Becica Fund of $516.

Reclassifications

During the City's annual review of its Component Units, two entities (SAEFC and WDC) had changes in their management or involvement with the City's Council that resulted in their reclassification from Discretely Presented to Blended.

Note 2 Property Taxes

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

The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2010, was $0.56569 per $100 taxable valuation, which means that the City has a tax margin of $1.93431 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,407,079 per year based on the net taxable valuation of $72,743,219 before the limit is reached.

Note 2 Property Taxes (Continued)

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing (TIF) and the creation of Tax Increment Reinvestment Zones (TIRZ) pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2010, there are 24 existing TIRZ with a total taxable captured value of $1,226,990. For fiscal year 2010, this total taxable captured value produced $6,488 in tax increment revenues for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 13 years to 30 years which are anticipated to expire starting in fiscal year 2014 through fiscal year 2038. It is estimated that the City will contribute approximately $695,250 in tax increment revenues in aggregate over the life of these TIRZ projects. The existing TIRZ are referred to as the Rosedale, Highland Heights, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heather Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North, Verano Projects, Westside, Midtown, and Mission Drive-In.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments

Summary of Cash and Cash Equivalents, Securities Lending and Investments

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

Totals from Statement of Net Assets					
	City [1]	Fire and Police Pension Fund [2]	Fire and Police Retiree Health Care Fund [2]	CPS Energy [3]	SAWS [4]
Unrestricted:					
Cash and Cash Equivalents	$ 33,303	$ 65,684	$ 9,519	$ 298,818	$ 32,138
Security Lending Collateral	56,831	112,290	6,035	31,815	
Investments	370,035	1,850,877	176,315	102,996	137,879
Total Unrestricted	460,169	2,028,851	191,869	433,629	170,017
Restricted:					
Cash and Cash Equivalents	101,582			39,102	96,334
Security Lending Collateral	92,020				
Investments	773,539			779,092	310,301
Total Restricted	967,141	-	-	818,194	406,635
Total Cash and Cash Equivalents, Securities Lending and Investments	$ 1,427,310	$ 2,028,851	$ 191,869	$ 1,251,823	$ 576,652

[1] Private Purpose Trust and Agency Funds, City South Management Authority and San Antonio Development Agency's cash, security lending collateral and investments are included in the City's pooled cash, security lending collateral and investments but are not available for City activities and are excluded from the primary government's Statement of Net Assets. The Private Purpose Trust and Agency assets are presented above as Restricted Cash and Cash Equivalents of $1,509, Security Lending Collateral of $1,401 and Investments of $8,812. The other entities' assets are presented in the Discretely Presented Component Unit's Statement of Net Assets.

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

[3] For the fiscal year ended January 31, 2010.

[4] For the fiscal year ended December 31, 2009.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Summary of Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Summary of Cash and Cash Equivalents

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial Institutions	$ 38,003	$ 196	$ 34	$ 1,989	$ 56,884
Investments with Original Maturities of Less than Ninety Days	95,150	65,488	9,485	335,842	71,558
Cash with Other Financial Agents	1,556				
Petty Cash Funds	96			89	
Cash on Hand	80				30
Total Cash and Cash Equivalents	$ 134,885	$ 65,684	$ 9,519	$ 337,920	$ 128,472

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 Mutual Funds	$ 1,235,381	$ 152,373	$ 9,485	$ 977,851	$ 519,738
Repurchase Agreements	1,154				
Fixed Income Securities [1]	657				
Equity Securities [1]	1,532				
Corporate Bonds		431,594	2,714	61,646	
Foreign Bonds				4,255	
Government & Agency Notes			1,945		
Common Stock		787,274	26,458	174,178	
Real Estate		138,959	24,970		
Hedge Funds		227,750	38,173		
International Equities - Common Stock			14,808		
Alternative Investment		178,375	67,247		
Total Investments	1,238,724	1,916,325	185,800	1,217,930	519,738
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(95,150)	(65,448)	(9,485)	(335,842)	(71,558)
Total	$ 1,143,574	$ 1,850,877	$ 176,315	$ 882,088	$ 448,180

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

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending 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 shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General Fund or another fund within a similar purpose.

The City's investment portfolio is managed in accordance with the Texas Public Funds Investment Act, as amended, and its own Investment Policy. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2010.

The City accounts for and reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $294 for the year-ended September 30, 2010. The City does not participate in external investment pools.

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

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

City Investments

	Carrying Amount [1]	Fair Value [1]	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 947,968	$ 948,092	76.5%	AAA/A-1+	.44 years
U.S. Treasuries	193,122	193,293	15.6%	N/A	.49 years
Money Market Mutual Fund	93,996	93,996	7.6%	AAA	1 day
Fixed Income Securities [4]	657	657	0.1%		
Equity Securities [4]	1,532	1,532	0.1%		
Repurchase Agreement	1,154	1,154	0.1%	N/A	1 day
Total City Investments	$ 1,238,429	$ 1,238,724	100.0%		

[1] The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, Convention Center Hotel Finance Corporation, and San Antonio Public Library Foundation, which total $16,472.

[2] The allocation is based on fair value.

[3] Standard & Poors.

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

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

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

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 (not less than 102.0% of the deposit amount) and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government and its agencies or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

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

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

Credit Risk – The City's Investment Policy requires the purchase of securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury securities and U.S. government agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated 'A' or better by at least two nationally recognized rating agencies. As of September 30, 2010, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Agricultural Mortgage Corporation, were rated 'AAA' (Long-term) and 'A-1+' (Short-term) by Standard & Poor's. The investments in the money market funds were rated 'AAA' by Standard & Poor's, and all repurchase agreements were greater than 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of 'A' or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to concentration of credit risk through diversification. As of September 30, 2010, the U.S. government agency's 76.5% securities allocation was as follows: Federal National Mortgage Association 29.4%, Federal Home Loan Mortgage Corporation 35.9%, Federal Home Loan Bank 2.9%, and Federal Agricultural Mortgage Corporation 8.3%.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Securities Lending – The City engages in securities lending transactions under a contract with its lending agent, Frost National Bank, which became effective on April 1, 2010. Authority to engage in these transactions is authorized under the Texas Public Funds Investment Act ("the Act") and the City's Investment Policy. The City has authorized Frost National Bank to loan up to 75.0% of the par value of its investments in the Pooled Operating Funds Portfolio, consisting of agency and treasury securities, in securities lending transactions for fiscal year 2010.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, the City, through its lending agent, transfers securities to approved borrowers in exchange for collateral and simultaneously agrees to return the collateral for the same securities in the future. Cash collateral received from borrowers may be invested in 'AAA'-rated money market mutual funds or investments that adhere to the Act and the City's Investment Policy. The liquidity provided by the money market mutual funds allows for the easy return of collateral upon termination of a security loan. As of September 30, 2010, all cash collateral was invested in next day money market funds.

Securities lending income is earned if the investment returns on the cash collateral exceeds the rebate paid to borrowers of the securities. The income is then split with the lending agent to cover its fees based on a contractually negotiated rate (70.0% allocated to the City and 30.0% allocated to Frost National Bank). In the event that the investment income of the cash collateral does not provide a return that exceeds the rebate or if the investment incurs a loss of principal, the payment to the borrower would come from the City and the lending agent based on the negotiated rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities borrowed. This income is split at the same rate as the earnings for cash collateral. The collateral pledged to the City for the loaned securities is held by the lending agent or the tri-party bank. These securities are not available to the City for selling or pledging unless the borrower is in default of the loan.

All collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the fair value of the collateral falls below 102.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities borrowed, the City has authorized the lending agent to seize the borrower's collateral. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified the City from any loss due to borrower default in the event the collateral is insufficient to replace the securities.

At September 30, 2010, the City had no credit risk exposure to borrowers because the amount of collateral held by the City exceeded the amount of the securities loaned to the borrowers. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2010.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

At September 30, 2010, there was a total of $745,463 in securities, or 74.4% of the par value of the City's Pooled Operating Funds Portfolio was on loan. In exchange, the City received $148,851 in cash collateral and $612,506 in securities collateral, or 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions, net of rebates to borrowers of $99, amounted to $716 in fiscal year 2010, of which 30.0% was paid as fees to the lending agent totaling $215.

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; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investments in private equity and others that do not have an established market are reported at estimated fair value using discounted expected future cash flows at rates that are adjusted for the amount of expected risk and valuations of comparable assets with ascertainable market values. Investment income is recognized as earned. Net appreciation/(depreciation) in fair value of investments includes gains and losses that are being recognized based on the change in the market value of the investments, but have not been realized because the assets have not been sold or exchanged as of the balance sheet date. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investments are $2,028,851. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2010, 29.0% of the Pension Fund's bonds were rated 'AAA', 3.0% were rated 'AA', 8.0% were rated 'A', 14.0% were rated 'BBB', 15.0% were rated 'BB', 19.0% were rated 'B', 3.0% were rated 'CCC', and 9.0% were unrated or not rated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2010, the Pension Fund had cash deposits held by investment managers in the amount of $457 that were uninsured and uncollateralized.

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

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, 2010 amount to $516,045 and have a weighted-average maturity (WAM) of 8.88 years. Securities that are subject to interest rate risk are shown in the following table.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
Corporate Bonds	$ 89,939	10.40
Government Agencies	12,730	7.44
Government Bonds	66,434	10.47
Index Linked Government Bonds	2,383	2.55
Mortage-backed securities	98,563	3.85
Corporate Convertible Bonds	558	8.64
Municipal/Provincial bonds	5,377	27.44
Non-Government Backed C.M.O.s	25,995	16.40
Bank Loans	2,181	3.60
Golden Tree*	64,095	9.70
Ashmore*	34,466	11.22
Ashmore LFC*	36,921	3.10
Wellington Emerging Market Debt*	76,403	10.00
Total Interest Rate Sensitive Securities	$ 516,045	

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

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, 2010 amounted to $307,329 in equities, $159,481 in bonds and $28,999 in cash. Detailed as follows:

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ 36	$ 1,479	$ -	$ 1,515
Australian Dollar	10,274	12,730	11	23,015
Bermuda Dollar	72			72
Brazilian Real	10,547	8,556		19,103
Canadian Dollar	6,137	7,859		13,996
Swiss Franc	14,689		44	14,733
Chinese Renminbi	6,894	576	2,498	9,968
Chilean Peso	1,504	2,303		3,807
Colombian Peso	-	4,140		4,140
Czech Republic Krona	1,620	3,053		4,673
Danish Krone	2,570		21	2,591
Egyptian Pound	-	1,532		1,532
European Union	72,397	1,453	430	74,280
British Pound	41,347	6,619	13,880	61,846
Hong Kong Dollar	16,633		1	16,634
Hungarian Forint	4	6,388		6,392
Indonesian Rupiah	855	7,247		8,102
Israeli New Shekel	1,216	1,200		2,416
Indian Rupee	9,415	3,435		12,850
Japanese Yen	43,572		(1)	43,571
South Korean Won	16,154	7,272		23,426
Kazakhstan Tenge	-	1,330		1,330
Cayman Dollar	22	3,929		3,951
Mexican Peso	5,160	7,947		13,107
Morocco Dirham	116			116
Malaysian Ringgit	2,651	7,839		10,490
Norwegian Krone	2,218		5,767	7,985
New Zealand Dollar	52	4,858	1,464	6,374
Pakistani Rupe	325			325
Panamanian Balboa	5			5
Peruvian Nuevo Sol		727		727
Philippine Peso	14	4,130		4,144
Polish Zloty	2,115	13,006		15,121
Romanian Leu		1,337		1,337
Russian Ruble	3,119	2,661		5,780
Swedish Krona	4,457	6,501		10,958
Singapore Dollar	3,880	5,949	34	9,863
Thai Baht	5,712	2,031		7,743
Turkey New Lira	4,229	5,443	4,850	14,522
Taiwan Dollar	10,846	1,373		12,219
Ukrainian Hyvnia		1,427		1,427
UAE Dirham		2,854		2,854
Uruguay Peso		1,906		1,906
Venezuelan Bolivar		1,696		1,696
South African Rand	6,472	6,695		13,167
	$ 307,329	$ 159,481	$ 28,999	$ 495,809

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 21 days at September 30, 2010. For the year-ended September 30, 2009, the Pension Fund has recognized an unrealized loss amounting to $2,019. The loss is due to the write down of some of the fixed income assets in the investment pool. On December 16, 2009, a cash amount of $314 was due to the custodial bank to cover a portion of the loss that has been realized. The custodial bank has reimbursed the Pension Fund for $298 of this realized loss by contributing cash to the short term investment fund and by a reduction in the fees charged to the Pension Fund. The unrealized portion of the loss gradually reversed as the underlying securities regained their market value, and in March 2010, the loss was completely reversed. A gain of $1,740 was recognized in the year ended September 30, 2010, related to the reversal of the loss net of the amount of the loss that was realized.

As of September 30, 2010, the Pension Fund had lending arrangements outstanding with a total market value of $109,399, which were fully collateralized with cash and securities. Of this amount, cash collateral of $112,290 is recorded in the accompanying Statement of Fiduciary Net Assets. Net income for the year ended September 30, 2010, under the securities lending arrangement, was $1,948. This includes the $1,740 gain from reversing the unrealized loss on the valuation of the investment pool. Securities lending collateral-cash and cash equivalents at fair value is shown with the assets on the Statement of Fiduciary Net Assets.

Cash Collateral Pool

	2010
U.S. Treasury Notes	$ 351
U.S. Asset Backed Securities	16,838
U.S. Corporate Notes	2,685
U.S. Repo Agreements	20,292
U.S. Sweep Vehicle	85
U.S. Agencies Bonds	17,196
U.S. Certificates of Deposit	1,343
U.S. Time Deposits	1,280
International Commercial Paper	2,942
International Certificates of Deposit	29,312
International Time Deposits	17,369
International Asset Backed Securities	1,638
International Corporate Notes	959
Total	$ 112,290

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Derivatives and Structured Investments - The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at September 30, 2010, was approximately $14,939, in commercial mortgage obligations and is included with investments in the Statement of Fiduciary Net Assets. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was $227,750 as of September 30, 2010.

As of September 30, 2010, the fund held currency forward contracts as follows:

	2010	
Currency	Market Value Receivable/ (Payable)	Maturity Date
Austrialian Dollars	$ (7,273)	10/29/2010
British Pound	13,819	12/3/2010
Chinese Yuan	2,499	1/21/2011
New Zealand Dollar	1,463	12/7/2010
Norwegian Krone	5,751	10/12/2010
Turkish Lira	4,845	10/12/2010
U.S. Dollars	(9,536)	10/12/2010
U.S. Dollars	39	10/22/2010
U.S. Dollars	7,229	10/29/2010
U.S. Dollars	(13,608)	12/3/2010
U.S. Dollars	(1,402)	12/7/2010
U.S. Dollars	(2,506)	1/21/2011
Total	$ 1,320	

Fire and Police Retiree Health Care Fund

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

Alternative investments are substantially held in the form of nonmarketable limited partnerships interests, private real estate investment trusts, and open-ended hedge funds. These investments are subject to the terms of the respective partnerships' or other types of governing documents which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers or general partners. These net asset values may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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

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

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

The fair value of the Health Care Fund's cash and investments at September 30, 2010 is $176,315. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits that are held with Frost Bank in non-interest bearing demand accounts are covered under the new FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2010, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. It does not appear that deposits the Health Care Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2010.

The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2010. The Health Care Fund is aware of these risks and monitors such risks, if any, as part of its day-to-day operations and through its daily dealings with the custodian bank.

Custodial Credit Risk (Investments) - The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2010, the Health Care Fund's commercial paper, government and agency notes, corporate bonds, and common stock investments are held at Frost National Bank's third-party custodian, Bank of New York. Since the investments are maintained separately from the bank's assets, in the event of failure of the bank, the investments held in trust would not be affected.

Credit Risk – In accordance with the Health Care Fund's Investment Policy, investments in money market mutual funds and commercial paper must be rated at least 'A-2' by Standard and Poor's (S & P) and fixed income assets, which includes government and agency notes and corporate bonds, must have an average rating of 'A'. The Health Care Fund's investments ratings from S & P was 'AAAm' for money market mutual funds; 'A-1' to 'A-2' for commercial paper; 'NR' to 'AAA' for government and agency notes, and 'BBB+' to 'AAA' for corporate bonds.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Care Fund's Investment Policy limits the maturities of money market mutual funds to two years at time of purchase. For fixed income assets, which includes government and agency notes and corporate bonds, the Investment Policy limits their maturities to market value weighted average effective duration, adjusted for expected life and call provision, which cannot be plus or minus 25.0% of the benchmark's effective duration.

The weighted average maturity in days for the Health Care Fund's investments are 10 to 38 days for money market mutual funds; 1 to 8 days for commercial paper; 22 to 39 days for government and agency notes; and 5 to 304 days for corporate bonds.

Securities Lending – The Health Care Fund participates in a securities lending program as a means to augment income. The program is operated in accordance with a contract between the Health Care Fund and its custodian bank, Frost National Bank, and compliance with State statutes and Health Care Fund policies. Securities are lent to select borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic nongovernment or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote.

At September 30, 2010, the Health Care Fund was not exposed to credit risk to borrowers because the amounts owed to borrowers exceeded the amount the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses in fiscal year 2010.

At September 30, 2010, there was a total of $5,890 in securities out on loan to borrowers. In exchange, the Health Care Fund received $6,035 in securities collateral invested in open-ended money market type mutual funds, or 103.0% of the market value of the corresponding securities loaned.

Subscribed Capital Commitments - As of September 30, 2010, the Fund had non-binding commitments to invest capital in sixteen investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to $70,946. As of September 30, 2010, $17,751 of this total had been called.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy

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

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

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

CPS Energy's cash deposits at January 31, 2010 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, U.S. government agency, or U.S. government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York in CPS Energy's name.

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

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Securities Lending Cash Collateral

	January 31, 2010
Cash and cash equivalents	
Petty cash funds on hand	$ 89
Deposits with financial institutions	
Unrestricted CPS Energy deposits	1,497
Restricted CPS Energy deposits	
Debt service	333
Project Warm	159
Investments with original maturities of less than 90 days	
CPS Energy unrestricted (current)	297,232
CPS Energy restricted (noncurrent)	24,304
Decommissioning Trusts - restricted (noncurrent)	14,306
Total cash and cash equivalents	337,920
CPS Energy - securities lending cash collateral	31,815
Total cash, cash equivalents and securities lending cash collateral	$ 369,735

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

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

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

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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

	January 31, 2010
Cash and cash equivalents	
CPS Energy unrestricted and restricted	$ 323,614
Decommissioning Trusts - restricted	14,306
Total cash and cash equivalents	337,920
Gross investments - current and noncurrent	
CPS Energy - unrestricted and restricted	829,847
Decommissioning Trusts - restricted	388,083
Total gross investments	1,217,930
Investments with original maturities of less than 90 days also included in cash equivalents	
CPS Energy unrestricted and restricted	(321,536)
Decommissioning Trusts - restricted	(14,306)
Total investments also included in cash equivalents	(335,842)
Net current and noncurrent investments	882,088
Total cash, cash equivalents and investments	$ 1,220,008

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

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

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

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Permissible Investments

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

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund

	January 31, 2010
Unrestricted	
Cash and cash equivalents	$ 298,818
Investments	102,996
Total Unrestricted (current)	401,814
Restricted	
Debt service	
Cash and cash equivalents	3,210
Total Debt Service	3,210
Capital projects	
Cash and cash equivalents	13,913
Investments	73,707
Total Capital Projects	87,620
Ordinance	
Investments	331,608
Total Ordinance	331,608
Other	
Project Warm	
Cash and cash equivalents	7,673
Total Project Warm	7,673
Decommissioning Trusts	
Cash and cash equivalents	14,306
Investments	373,777
Total Decommissioning Trusts	388,083
Total Other	395,756
Total Restricted	
Cash and cash equivalents	39,102
Investments	779,092
Total Restricted (noncurrent)	818,194
Total cash, cash equivalents and investments (unrestricted and restricted)	$ 1,220,008

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

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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

Summary of Investments by Organizational Structure and Type

	January 31, 2010
CPS Energy investments	
U.S. Treasury, Government Agencies and money market funds	$ 829,847
Decommissioning Trusts	
U.S. Treasury, Government Agencies and money market funds	148,004
Corporate bonds	61,646
Foreign bonds	4,255
Subtotal	213,905
Common stock	174,178
Total Decommissioning Trusts	388,083
Grand total - all investments	$ 1,217,930

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

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

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

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

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Concentration of Credit Risk – In accordance with its investment policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each federal agency to 50.0% and its investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, certificates of deposit are limited to 50.0% per issuer.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 124,228	$ 124,228	15.0%	3.9
Federal National Mortgage Assn.	95,467	95,467	11.5%	4.0
Federal Home Loan Bank	147,419	147,461	17.8%	0.7
Federal Farm Credit Bank	7,551	7,551	0.9%	2.4
Municipal bonds	20,645	20,645	2.5%	1.3
Certificates of Deposit	113,000	113,000	13.6%	0.4
Money Market Mutual Funds	321,537	321,537	38.7%	0.0
Total Fixed-Income Investments	829,847	829,889	100.0%	2.1
Cash Collateral - Securities Lending	31,815	31,815		
Total Fixed-Income Portfolio	$ 861,662	$ 861,704		

Credit Risk – In accordance with its investment policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of 'A' or better. As of January 31, 2010, CPS Energy held no direct investments with a credit rating below 'Aa'.

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 733,725	$ 733,767	85.2%
Aaa	200	200	0.0%
AA	13,664	13,664	1.6%
Aa	1,073	1,073	0.1%
Certicates of Deposits (not rated)	113,000	113,000	13.1%
Total Fixed-Income Investments	$ 861,662	$ 861,704	100.0%

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

Interest Rate Risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment – especially those with payment terms dependent on market interest rates. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Barclays Capital Aggregate Index, which is 4.4 for 2009.

Concentration of Credit Risk – In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2009, total nongovernment-sponsored (corporate and foreign) issuers amounted to 41.6% of the 28% Decommissioning Trust and 18.2% of the 12% Decommissioning Trust.

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

	28% Interest			12% Interest		
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 8,349	5.9%	3.8	$ 7,788	19.6%	6.8
U.S. Agencies:						
Federal National Mortgage Assn.	32,318	22.9%	2.7	9,429	23.7%	3.3
Federal Home Loan Mortgage Corp.	16,312	11.6%	3.0	6,289	15.8%	3.4
Small Business Administration	4,581	3.3%	6.1			
Government National Mortgage Assn.	2,003	1.4%	3.5	2,867	7.2%	6.8
Municipal Bonds - Texas	624	0.4%	4.9	2,026	5.1%	6.3
Municipal Bonds - Other States	5,951	4.2%	9.5	2,159	5.4%	3.2
Corporate Bonds	54,417	38.6%	6.0	7,229	18.1%	5.6
Foreign Bonds	4,255	3.0%	6.0	-		
AIM Money Market	12,287	8.7%	0.0	2,019	5.1%	
Total Fixed-income Investments	$ 141,097	100.0%	4.8	$ 39,806	100.0%	4.9
Cash Collateral - Securities Lending	20,407			12,595		
Total Portfolio	$ 161,504			$ 52,401		

Credit Risk – In accordance with the investment policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of 'BBB-' or better from at least two nationally recognized credit rating agencies. If a security's rating falls below the minimum investment grade rating of 'BBB-' after it has been purchased, the investment policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5.0% of the total fixed-income portfolio.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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

	28% Interest		12% Interest	
Credit Rating	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	$ 8,349	5.2%	$ 7,788	14.9%
AAA	100,280	62.1%	35,724	68.2%
Aaa	1,215	0.8%		
AA+	1,414	0.9%	1,393	2.6%
AA	1,198	0.7%	522	1.0%
Aa2	296	0.2%		
AA-	3,095	1.9%	538	1.0%
Aa3	78	0.1%		
A+	2,347	1.5%	526	1.0%
A	10,539	6.5%	2,859	5.4%
A-	8,916	5.5%	1,401	2.7%
A3	150	0.1%		
BBB+	5,131	3.2%	925	1.8%
BBB	10,321	6.4%	725	1.4%
BBB-	5,025	3.1%		
BB	1,681	1.0%		
B	57	0.0%		
B-	39	0.0%		
CCC	471	0.3%		
D	71	0.0%		
Not rated	831	0.5%		
Total Fixed-income Portfolio	$ 161,504	100.0%	$ 52,401	100.0%

Foreign Currency Risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollars. This reduces the potential foreign currency risk exposure to the portfolio. Total foreign bonds outstanding amounted to $4,255 as of December 31, 2009. In accordance with the investment policy, investments in international portfolios are limited to international commingled funds and Exchange Traded Funds that are diversified across countries and industries. The international portfolio will be limited to 20.0% of the total equity portfolio. At December 31, 2009, total foreign equity securities amounted to 14.6% of the 28% Trust's equity portfolio. There were no foreign equity securities held by the 12% Trust at December 31, 2009.

Securities Lending – CPS Energy and the Decommissioning Trusts engage in securities lending transactions under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. The entities are authorized to loan up to 100.0% of their investments in securities lending transactions.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested entirely in money market mutual funds. The liquidity provided by the money market mutual funds allows for the easy return of collateral at the termination of a security loan.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

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

At January 31, 2010, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2010.

Direct Investments – At January 31, 2010, there was a total of $181,330 in securities, or 21.8% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $31,815 in cash collateral and $153,491 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $922 in fiscal year 2010, of which 30.0% was paid as fees to the lending agent totaling $277.

Decommissioning Trusts – For the 28% Decommissioning Trust at December 31, 2009, there was a total of $20,284 in securities, or 7.6% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $20,407 in cash collateral and $464 in securities collateral, or a total of 102.9% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $67 in calendar year 2009, of which 30.0% was paid as fees to the lending agent totaling $20.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

For the 12% Decommissioning Trust at December 31, 2009, there was a total of $13,000 in securities, or 14.5% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $12,595 in cash collateral and $830 in securities collateral, or a total of 102.9% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $27 in calendar year 2009, of which 30.0% was paid as fees to the lending agent totaling $8.

San Antonio Water System (SAWS)

SAWS is permitted by City Ordinance No. 75686, SAWS' Investment Policy and Texas state law, to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at 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 in demand and savings accounts or certificates of deposit at Frost National Bank, SAWS' general depository bank. The general depository agreement with the bank does not require SAWS to maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2009, the collateral pledged is being held by the Federal Reserve Bank of Boston under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2009, the bank balance of demand and savings account was $16,770 and the reported amount was $12,914 which included $30 of cash on hand, and certificates of deposits totaled $44,000.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are securities issued by Agencies of the United States and are held in safekeeping by SAWS' depository bank, Frost National Bank and registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by Frost National Bank or Wells Fargo Bank and are invested in securities issued by the U.S. government or by U.S. Agencies.

As of December 31, 2009, SAWS had the following investments and maturities:

Investments Maturities (in Days)						
Investment Type	**90 Days or Less**	**91 to 180**	**181 to 365**	**Greater than 365**	**Fair Value**	**Reported**
U.S. Agency Discount Notes	$ 89,993	$ 145,423	$ 31,022	$ -	$ 266,438	$ 266,428
U.S. Agency Coupon Notes	45,677	53,134	49,707	33,221	181,739	181,751
Money Market Funds:						
Frost National Bank	17,021				17,021	17,021
Wells Fargo Bank	54,538				54,538	54,538
	$ 207,229	$ 198,557	$ 80,729	$ 33,221	$ 519,736	$ 519,738
Percentage of Portfolio	39.9%	38.2%	15.5%	6.4%	100.0%	

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

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, 93.6% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk – In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of 'A' or better. Additionally, any investments in commercial paper require a rating of at least 'A-1' or 'P-1'. As of December 31, 2009, SAWS held no direct investments with a credit rating below 'AAA'.

Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2009				
AAA	$ 519,738	$ 519,736	100.0%	Max. = 100.0%
Total Portfolio	$ 519,738	$ 519,736	100.0%	

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2009, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 25.0% in Federal Home Loan Bank, 26.0% in Federal National Mortgage Association, and 26.0% in Federal Home Loan Mortgage Corporation.

(The remainder of this page left blank intentionally)

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

The following is a reconciliation of deposits and investments disclosed in the note to the amounts presented for cash and cash equivalents and investments in the balance sheet for 2009:

	December 31, 2009
Reported amounts in note for:	
Deposits, including certificates of deposit	$ 56,914
Investments	519,738
Total Deposits and Investments	$ 576,652
Totals for Balance Sheet:	
Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	$ 32,138
Restricted cash and cash equivalents:	
Capital Projects Accounts	96,331
Other Restricted Accounts:	
Reserve Fund	3
Total Cash and Cash Equivalents	$ 128,472
Investments:	
Unrestricted current investments	$ 137,879
Restricted current investments:	
Debt Service Accounts	37,010
Capital Project Accounts	20,762
Other Restricted Accounts:	
Operating reserve	34,649
Customer deposits	8,194
Total Other Restricted Accounts	42,843
Total Current Investments	$ 238,494
Restricted noncurrent investments:	
Capital Project Accounts	$ 162,321
Other Restricted Accounts:	
Reserve Fund	47,365
Total Cash, Cash Equivalents and Investments	$ 576,652

(The remainder of this page left blank intentionally)

Note 4 Capital Assets

Primary Government (City)

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. Impairments of $204 were identified and reduced in capital assets for governmental activities.

Capital asset activity for governmental activities, to include Internal Service Funds, for the period-ended September 30, 2010, is as follows:

Capital Assets - Governmental Activities

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,430,280	$ 14,347	$ (179)	$ (80,021)	$ 1,364,427
Intangible Assets				81,809	81,809
Construction in Progress	388,357	215,920	(2,610)	(121,898)	479,769
Other Assets	500				500
Total Non-Depreciable Assets	1,819,137	230,267	(2,789)	(120,110)	1,926,505
Depreciable Assets:					
Buildings	714,311	2,127	(1,037)	18,703	734,104
Improvements	316,990		(2,177)	58,814	373,627
Infrastructure	2,349,470	4,036	(1,868)	31,333	2,382,971
Machinery and Equipment	366,725	33,663	(21,993)	11,260	389,655
Intangible Assets		120			120
Total Depreciable Assets	3,747,496	39,946	(27,075)	120,110	3,880,477
Accumulated Depreciation:					
Buildings	(257,088)	(23,616)	1,037		(279,667)
Improvements	(84,920)	(15,369)	122		(100,167)
Infrastructure	(1,497,444)	(65,970)			(1,563,414)
Machinery and Equipment	(207,274)	(34,155)	15,361		(226,068)
Intangible Assets		(11)			(11)
Total Accumulated Depreciation	(2,046,726)	(139,121)	16,520		(2,169,327)
Total Depreciable Assets, net	1,700,770	(99,175)	(10,555)	120,110	1,711,150
Total Capital Assets, net	$ 3,519,907	$ 131,092	$ (13,344)	$ -	$ 3,637,655

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 22,207
Public Safety	7,753
Public Works	60,564
Health Services	8,856
Welfare	525
Culture and Recreation	12,729
Convention and Tourism	4,379
Urban Redevelopment and Housing	646
Economic Development and Opportunity	120
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	21,342
Total Depreciation Expense for Governmental Activities	$ 139,121

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2010, Internal Service Funds capital assets increased by $15,860, and decreased by $17,958, resulting in an ending balance of $164,489. Depreciation expense of $21,342 resulted in an ending accumulated depreciation balance of $107,447, to arrive at net book value of $57,042.

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 2010, the City capitalized construction period interest for the Airport System in the amount of $3,736. Capital asset activity for business-type activities for the year-ended September 30, 2010, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 5,323	$ 4	$ (5)	$ -	$ 5,322
Nonmajor Enterprise Funds	9,018				9,018
Total Land	14,341	4	(5)		14,340
Construction in Progress:					
Airport System	226,186	97,687	(138)	(6,088)	317,647
Nonmajor Enterprise Funds	1,012	1,528		(1,803)	737
Total Construction in Progress	227,198	99,215	(138)	(7,891)	318,384
Total Non-Depreciable Assets	241,539	99,219	(143)	(7,891)	332,724
Depreciable Assets:					
Buildings:					
Airport System	195,802		(459)	5,330	200,673
Nonmajor Enterprise Funds	24,566	419		362	25,347
Total Buildings	220,368	419	(459)	5,692	226,020
Improvements:					
Airport System	225,281	5,255	(5,628)	758	225,666
Nonmajor Enterprise Funds	10,140	317			10,457
Total Improvements	235,421	5,572	(5,628)	758	236,123
Machinery and Equipment:					
Airport System	13,304	1,511	(212)		14,603
Nonmajor Enterprise Funds	26,612	994	(150)	1,441	28,897
Total Machinery and Equipment	39,916	2,505	(362)	1,441	43,500
Total Depreciable Assets	495,705	8,496	(6,449)	7,891	505,643
Accumulated Depreciation:					
Buildings:					
Airport System	(73,170)	(4,664)			(77,834)
Nonmajor Enterprise Funds	(8,156)	(696)			(8,852)
Total Buildings	(81,326)	(5,360)			(86,686)
Improvements:					
Airport System	(96,876)	(5,052)			(101,928)
Nonmajor Enterprise Funds	(2,202)	(498)			(2,700)
Total Improvements	(99,078)	(5,550)			(104,628)
Machinery and Equipment:					
Airport System	(10,201)	(943)	206		(10,938)
Nonmajor Enterprise Funds	(6,416)	(2,840)	148		(9,108)
Total Machinery and Equipment	(16,617)	(3,783)	354		(20,046)
Total Accumulated Depreciation	(197,021)	(14,693)	354		(211,360)
Total Depreciable Assets, net	298,684	(6,197)	(6,095)	7,891	294,283
Total Capital Assets, net	$ 540,223	$ 93,022	$ (6,238)	$ -	$ 627,007

Note 4 Capital Assets (Continued)

CPS Energy

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

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

* Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2, which is currently not available for use, and W.B. Tuttle Units 1,3 and 4, which were mothballed in FY 2010. All W.B. Tuttle units are fully depreciated.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in fiscal year 2011. Spruce 2, a 750-megawatt unit, will be the largest of the coal units at Calavaras Lake and will be equipped with current emissions-control technology.

Construction of the V.H. Braunig (VHB) peaking units project began on September 10, 2008, and commercial operations is expected to begin in fiscal year 2011. The peaking units will provide an additional 186 megawatts of capacity to the CPS Energy generation portfolio to meet customer demand during periods of peak load.

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 to substations, and the electric and gas distribution systems.

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

Impairments – No capital asset impairments were identified for fiscal year 2010.

Investment in STP – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (STPNOC), a nonprofit Texas corporation special-purpose entity. It is financed and controlled by the owners – CPS Energy; the City of Austin; and NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. CPS Energy's 40% interest in STP Units 1 and 2 is included in plant assets. See Note 10 for more information on CPS Energy's South Texas Project.

On October 29, 2007, the CPS Energy board of trustees approved a resolution enabling CPS Energy to participate in development activities related to new nuclear generation units to be constructed in Bay City, Texas, on a site where Units 1 and 2 currently operate. These generation units are referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50.0% interest in the development. As a result of a litigation settlement with Nuclear Innovation North America, Inc. (NINA), CPS Energy's partner in the project, CPS Energy's ownership in STP Units 3 and 4 was reduced from 50.0% to 7.6% effective March 1, 2010. Project costs to date of $380,000 are included in construction-in-progress. For more detailed information on project development and legal issues associated with STP Units 3 and 4, see Note 10.

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP Capital Investment (40.0% share), Net

	January 31, 2010
STP capital assets, net	
Construction-in-progress	$ 415,815
Land	5,701
Electric and general plant	1,224,886
Nuclear fuel	107,092
Total STP capital assets, net	$ 1,753,494
Total CPS Energy capital assets, net	$ 7,064,193
STP capital investments as a percentage of total CPS Energy capital assets, net	24.8%

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the Balance Sheet, including capital asset activity for fiscal year 2010:

Capital Assets - CPS Energy

	Beginning Balance	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$99,122	$ -	$ 8,032	$ (4)	$ 107,150
Construction in Progress	1,346,182	842,027	(294,523)		1,893,686
Total Non-Depreciable Assets	1,445,304	842,027	(286,491)	(4)	2,000,836
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	7,058,003	43,465	242,451	(25,663)	7,318,256
Gas Plant	639,943	4,015	19,320	(515)	662,763
General Plant	702,660	5,698	24,720	(16,739)	716,339
Nuclear Fuel	574,707	68,838			643,545
Total Depreciable Capital Assets	8,975,313	122,016	286,491	(42,917)	9,340,903
Accumulated Depreciation Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(3,035,371)	(227,037)		35,121	(3,227,287)
Gas Plant	(231,045)	(14,335)		913	(244,467)
General Plant	(240,395)	(44,346)		15,402	(269,339)
Nuclear Fuel	(503,957)	(32,496)			(536,453)
Total Accumulated Depreciation Depletion and Amortization	(4,010,768)	(318,214)		51,436	(4,277,546)
Total Capital Assets, net	$6,409,849	$ 645,829	$ -	$ 8,515	$ 7,064,193

Cash flow information - Cash paid for additions and net removal costs was $810,600. This included $895,200 in additions to construction-in-progress and electric, gas and general plant; partially offset by $59,200 in AFUDC and $13,400 in donated assets.

Other - The increases in electric plant included new substations and distribution infrastructure. Depreciation and amortization totaled $285,800, which included $105 related to intangible assets.

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS' interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the year-ended December 31, 2009, interest capitalized was $9,953. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System					
	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Land	$ 78,572	$ -	$ 242	$ -	$ 78,814
Acquisition of Water Rights	104,056		52,648		156,704
Other Intangible Assets	365	23			388
Construction in Progress	372,607	281,532	(225,479)	689	427,971
Total Non-Depreciable Assets	555,600	281,555	(172,589)	689	663,877
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	415,477	117	28,407	1	444,000
Pumping and Purification	122,793	155	3,286		126,234
Distribution and Transmission System	1,434,989	737	75,406	2,585	1,508,547
Treatment Facilities	1,365,247		63,668	3,935	1,424,980
Machinery and Equipment:					
Machinery and Equipment	102,758	10,241	(99)	10,276	102,624
Furniture and Fixtures	5,048				5,048
Computer Equipment	18,409	2,000	1,915	873	21,451
Software	17,587	142	6		17,735
Total Depreciable Assets	3,482,308	13,392	172,589	17,670	3,650,619
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(90,901)	(9,058)		(1)	(99,958)
Pumping and Purification	(24,137)	(3,046)			(27,183)
Distribution and Transmission System	(381,333)	(32,988)		(1,987)	(412,334)
Treatment Facilities	(492,819)	(30,615)		(3,935)	(519,499)
Machinery and Equipment:					
Machinery and Equipment	(53,668)	(6,933)		(10,271)	(50,330)
Furniture and Fixtures	(3,624)	(264)			(3,888)
Computer Equipment	(13,910)	(2,039)		(827)	(15,122)
Software	(10,326)	(1,592)			(11,918)
Total Accumulated Depreciation	(1,070,718)	(86,535)		(17,021)	(1,140,232)
Total Depreciable Assets, net	2,411,590	(73,143)	172,589	649	2,510,387
Total Capital Assets, net	$ 2,967,190	$ 208,412	$ -	$ 1,338	$ 3,174,264

Amounts are expressed in thousands

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2010 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 130,781	$ 25,547	$ 37,058	$ 235	$ 118	$ 193,739
Business-Type Activities:						
Airport System	$ 4,876	$ -	$ -	$ 13	$ -	$ 4,889
Nonmajor Enterprise Funds	7,064			5		7,069
Total Business-Type Activities	$ 11,940	$ -	$ -	$ 18	$ -	$ 11,958

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $58,672 against customer, other governmental agencies and other receivables, and $4,711 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $265 against customer and other receivables.

The only receivables not expected to be collected within one year are $37,034 of notes and loans receivables, net of allowance for doubtful accounts, related to General Government, Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding deferred revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2010 are as follows:

	Accounts	Accrued Payroll	Other	Total Payables
Governmental Activities	$ 154,549	$ 26,571	$ -	$ 181,120
Business-Type Activities:				
Airport System	$ 19,609	$ 1,126	$ 22	$ 20,757
Nonmajor Enterprise Funds	3,753	1,326	2	5,081
Total Business-Type Activities	$ 23,362	$ 2,452	$ 24	$ 25,838

Interfund Receivable and Payable Balances

As of September 30, 2010, 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 $43,436 due from other funds in the General Fund, $42,404 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of $648 and $257 to the Nonmajor Governmental Fund and General Fund, respectively, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loans.

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2010:

Summary Table of Interfund Receivables and Payables
As of September 30, 2010

	Due from Other Funds	Due To Other Funds
General Fund:		
Debt Service Fund	$ 1,500	$ -
Categorical Grant In-Aid	30,605	524
2007 General Obligation Bonds	30	
Airport System Fund	77	
Nonmajor Governmental Funds	10,275	432
Nonmajor Enterprise Funds	101	315
Internal Service Funds	339	466
Fiduciary Funds	509	
Total General Fund	43,436	1,737
Debt Service Fund:		
General Fund		1,500
Nonmajor Governmental Funds	477	
Nonmajor Enterprise Fund	4	1
Total Debt Service Fund	481	1,501
Categorical Grant In-Aid:		
General Fund	524	30,605
Nonmajor Governmental Funds	2,706	53
Internal Service Funds	22	3
Total Categorical Grant In-Aid	3,252	30,661
2007 General Obligation Bonds:		
General Fund		30
Nonmajor Governmental Funds	9,200	
Total 2007 General Obligation Bonds	9,200	30
Airport System Fund:		
General Fund		77
Airport System Fund	806	806
Internal Service Funds	235	
Nonmajor Governmental Funds	185	
Total Airport System Fund	1,226	883
Nonmajor Governmental Funds:		
General Fund	432	10,275
Debt Service Fund		477
Categorical Grant In-Aid	53	2,706
2007 General Obligation Bonds		9,200
Airport System Fund		185
Nonmajor Governmental Funds	11,178	11,178
Nonmajor Enterprise Funds		1,118
Internal Service Funds	139	648
Total Nonmajor Governmental Funds	11,802	35,787
Nonmajor Enterprise Funds:		
General Fund	315	101
Debt Service Fund	1	4
Nonmajor Governmental Funds	1,118	
Internal Service Funds		232
Total Nonmajor Enterprise Funds	1,434	337
Internal Service Funds:		
General Fund	466	339
Categorical Grant In-Aid	3	22
Airport System Fund		235
Nonmajor Governmental Funds	648	139
Nonmajor Enterprise Funds	232	
Total Internal Service Funds	1,349	735
Fiduciary Funds:		
General Fund		509
Total Fiduciary Funds	-	509
Total	$ 72,180	$ 72,180

Amounts are expressed in thousands

Note 5 Receivables and Payables (Continued)

CPS Energy

Disaggregation of Receivables - Net customer accounts receivable as of January 31, 2010, included $40,069 for unbilled revenue receivables and $161,991 for billed utility services. Interest and other receivables included $2,699 for regulatory-related receivables, $1,456 for interest receivables and $13,505 for other miscellaneous receivables.

Disaggregation of Payables - At January 31, 2010, accounts payable and accrued liabilities included $296,929 related to standard operating supplier and vendor payables, including fuels payable; $26,167 for employee-related payables; and $78,849 for other miscellaneous payables and accrued liabilities.

San Antonio Water System (SAWS)

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

	December 31, 2009
Water Delivery	$ 12,043
Water Supply	12,843
Wastewater	15,387
Chilled Water and Steam	1,307
	$ 41,580

Included within the receivables above are unbilled revenue receivables of $16,987 at December 31, 2009.

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 2010:

On March 23, 2010, the City issued $156,255 in General Improvement Refunding Bonds, Series 2010 to refund certain obligations of the City (Refunded Obligations). Solid Waste Management was allocated $545 from the Refunded Obligations. The Governmental Activities' share of the net proceeds from the sale of the General Improvement Refunding Bonds, Series 2010, which included a premium of $20,685, were applied, together with a cash contribution of $1,500 from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, the City will realize a total decrease of $9,265 in debt service payments and total deferred charges of $13,147. Through this defeasance, the City obtained an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $7,591. The Bonds have maturities ranging from 2011 to 2023, with interest rates ranging from 2.0% to 5.0%.

On July 13, 2010, the City issued the following: $8,800 in General Improvements Bonds, Series 2010A, $191,550 in General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds), and $38,375 in Combination Tax and Revenue Certificates of Obligation, Series 2010.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The General Improvement Bonds, Series 2010A were issued to finance improvements to parks, recreation, and open space and athletics. The Bonds have maturities ranging from 2019 to 2020, with interest rates of 5.0%.

The General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) were issued to finance improvements to streets, bridges and sidewalks, drainage, and libraries. The Bonds have maturities ranging from 2020 to 2040, with interest rates ranging from 4.314% to 6.038%.

The Combination Tax and Revenue Certificates of Obligation, Series 2010 were issued to provide funds for making permanent public improvements and for other public purposes, including police and fire improvements, municipal facilities improvements, park and recreation improvements, street improvements, drainage improvements, riverwalk improvements, library improvements, and golf course improvements. The Certificates have maturities ranging from 2014 to 2019, with interest rates ranging from 4.0% to 5.0%.

On July 13, 2010, the City issued $9,655 in Tax Notes, Series 2010A. The Notes were issued to provide funds for computer and information technology systems. The Notes have maturities ranging from 2011 to 2013, with interest rates ranging from 2.0% to 4.0%.

On March 31, 2010, Municipal Facilities Corporation issued $9,090 in Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010 (Development & Business Services Center Project). The Bonds were issued to refund certain Municipal Facilities Corporation bonds in order to lower the overall annual debt service requirements of the Corporation and the lease payments made by Municipal Facilities Corporation. The net proceeds from the sale of the Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010, which included a premium of $33, were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, Municipal Facilities Corporation will realize a total decrease of $599 in debt service payments and total deferred charges of $633. Through this defeasance, Municipal Facilities Corporation obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $530. The 2010 Refunding Bonds have maturities ranging from 2010 to 2020, with interest rates ranging from 1.00% to 3.25%.

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad-valorem taxes levied upon all taxable property located within the City, within the limitations prescribed by law. The Certificates of Obligations are additionally secured by a lien on and pledge of certain pledged revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash.

The Hotel Occupancy Tax Revenue Bonds are secured by Hotel Occupancy Tax (HOT) currently levied at 9.0% of which 7.0% is designated as "General HOT" and 2.0% is designated as the "Expansion HOT". The General HOT is comprised of the pledged 1.75% HOT and the pledged 5.25% HOT. The Series 1996 HOT Bonds are secured by prior liens on revenues from the General HOT and a lien on the revenues from the Expansion HOT. The 2004A, 2006, and the 2008 HOT Bonds are secured by subordinate liens on revenues from the General HOT. The 2008 HOT Bonds are additionally supported by an irrevocable direct-pay Letter of Credit dated as of July 8, 2010 issued by Wells Fargo Bank, National Association, whom also serves as the remarketing agent. The Letter of Credit agreement will expire July 11, 2012. As of September 30, 2010, there have been no borrowings under the Letter of Credit.

The 2008 HOT Bonds were issued as variable-rate bonds and as such have interest rates set on a weekly basis.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

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

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

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

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

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation and tax notes. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchase Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2010, $287,710 of previously defeased bonds was outstanding.

(The remainder of this page left blank intentionally)

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, 2010 for governmental activity debt:

Governmental Activity Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2009	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2010
General Obligation Bonds:							
Series 1998 Refunding	$ 30,855	2018	4.500-5.000	$ 3,180	$ -	$ 3,180	$ -
Series 1998A Refunding	49,110	2019	4.000-5.250	14,605		14,605	
Series 1999	12,000	2020	5.375-6.000	1,170		1,170	
Series 2000	27,565	2020	4.500-5.000	4,170		4,170	
Series 2000A	15,615	2021	5.250-5.375	3,035		2,300	735
Series 2001	84,945	2022	3.000-5.250	2,565		385	2,180
Series 2002 Forward Refunding	251,280	2013	4.000-5.250	93,170		37,210	55,960
Series 2002	55,850	2023	2.000-5.500	24,100		16,895	7,205
Series 2003	40,905	2014	2.750-5.000	17,155		1,140	16,015
Series 2003A	56,515	2016	2.000-5.000	43,020		4,940	38,080
Series 2004	33,570	2024	2.375-4.750	30,655		16,160	14,495
Series 2005	116,170	2025	3.500-5.250	116,170		15,335	100,835
Series 2006 Forward Refunding	33,090	2016	5.250-5.500	30,690		2,550	28,140
Series 2006 Refunding	169,785	2026	3.500-5.000	159,160		26,985	132,175
Series 2007 Refunding	121,220	2028	4.000-5.000	113,365		27,405	85,960
Series 2008	75,060	2028	4.000-5.500	75,060			75,060
Series 2010 Refunding	155,710	2023	2.000-5.000		155,710		155,710
Series 2010A	8,800	2020	5.000		8,800		8,800
Series 2010B BABs	191,550	2040	4.314-6.038		191,550		191,550
Total General Obligation Bonds	$ 1,529,595			$ 731,270	$ 356,060	$ 174,430	$ 912,900
Tax-Exempt Certificates of Obligation:							
Series 1998	$ 4,315	2018	4.600-5.000	$ 360	$ -	$ 360	$ -
Series 1998A	36,535	2019	4.000-5.250	6,065		6,065	
Series 1999	4,230	2020	5.750-6.000	410		410	
Series 2000	8,490	2020	4.500-4.625	1,280		1,280	
Series 2000A	8,810	2021	5.250-5.375	1,710		1,295	415
Series 2000C	6,415	2020	5.000-5.500	4,925		4,925	
Series 2001	65,195	2014	4.000-5.250	26,580		20,120	6,460
Series 2002	69,930	2023	3.000-5.500	40,410		23,570	16,840
Series 2004	29,525	2024	2.000-5.000	23,580		3,440	20,140
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006	72,755	2026	3.500-4.375	65,200		2,705	62,495
Series 2007	104,255	2028	4.000-5.000	85,010		15,930	69,080
Series 2008	85,005	2028	3.500-5.500	82,170		2,875	79,295
Series 2010	38,375	2019	4.000-5.000		38,375		38,375
Total Tax-Exempt Certificates of Obligation	$ 544,370			$ 348,235	$ 38,375	$ 82,975	$ 303,635
Taxable Certificates of Obligation:							
Series 2000B	$ 1,755	2021	7.450-7.550	$ 155	$ -	$ 75	$ 80
Total Taxable Certificates of Obligation	$ 1,755			$ 155	$ -	$ 75	$ 80
Tax Notes:							
Series 2007A	$ 21,270	2012	4.000-5.000	$ 13,715	$ -	$ 4,380	$ 9,335
Series 2008	15,320	2013	3.500-5.000	12,905		3,035	9,870
Series 2009	30,100	2010	1.840-2.610	21,475		21,475	
Series 2010A	9,655	2013	2.000-4.000		9,655		9,655
Total Tax Notes	$ 76,345			$ 48,095	$ 9,655	$ 28,890	$ 28,860
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2017	4.500-6.200	$ 18,112	$ -	$ -	$ 18,112
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500	71,320		265	71,055
Series 2007 Hotel Occupancy Tax Note	5,500	2010	4.042	5,500		5,500	
Series 2008 Hotel Occupancy Tax Ref	135,000	2034	Variable	131,000		1,500	129,500
Series 2003 Municipal Drainage	44,150	2028	2.000-5.000	37,395		1,280	36,115
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	55,535		1,515	54,020
Series 2001 Municipal Facility Corp	14,465	2020	3.370-5.200	9,780		9,055	725
Series 2010 Municipal Facility Corp Ref	9,090	2020	1.000-3.250		9,090	125	8,965
Convention Series 2005A	129,930	2039	4.750-5.000	129,930			129,930
Convention Series 2005B	78,215	2028	4.500-5.310	78,215		2,150	76,065
Starbright Industrial Development Corp.	24,685	2033	2.180-5.110	23,075		565	22,510
Total Revenue Bonds	$ 767,117			$ 570,252	$ 9,090	$ 21,955	$ 557,387
Total	$ 2,919,182			$ 1,698,007	$ 413,180	$ 308,325	$ 1,802,862

[1] A portion of the Hotel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through Fiscal Year 2010 has resulted in an increase of $20,077 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and all revenue bonds outstanding as of September 30, 2010 are as follows:

Principal and Interest Requirements									
	General Obligation Bonds			Certificates of Obligation		Tax Notes		Revenue Bonds	
Year Ending September 30,	Principal	Interest	Direct Subsidy	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 72,780	$ 46,377	$ (4,017)	$ 26,625	$ 13,687	$ 10,855	$ 1,155	$ 10,197	$ 26,508
2012	60,465	42,225	(3,825)	21,360	12,486	11,290	715	10,744	26,177
2013	68,620	39,159	(3,825)	18,470	11,655	6,715	303	11,101	25,837
2014	56,045	35,970	(3,825)	24,985	10,906			11,395	25,476
2015	43,070	33,243	(3,825)	28,480	9,791			11,415	25,083
2016-2020	224,275	133,888	(19,127)	79,060	34,141			83,780	117,478
2021-2025	187,505	79,581	(17,652)	70,515	18,106			120,420	93,272
2026-2030	89,985	45,117	(14,191)	34,220	3,079			131,055	61,425
2031-2035	49,815	27,461	(9,611)					112,140	29,526
2036-2040	60,340	11,210	(3,923)					55,140	7,056
Total	$ 912,900	$ 494,231	$ (83,821)	$ 303,715	$ 113,851	$ 28,860	$ 2,173	$ 557,387	$ 437,838

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program included 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreation, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis. The Bonds authorized but unissued as of September 30, 2010 are as follows:

Authorized but Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized but Unissued
5/12/2007	Streets, Bridges, and Sidewalks	$ 306,998	$ 199,449	$ 107,549
5/12/2007	Drainage	152,052	97,532	54,520
5/12/2007	Parks, Recreation, Open Space, and Athletics	79,125	78,187	938
5/12/2007	Library	11,025	11,025	
5/12/2007	Public Health Facilities	800	800	
Total		$ 550,000	$ 386,993	$ 163,007

(The remainder of this page left blank intentionally)

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2010 was $84,481,611, which provides a debt ceiling of $8,448,161. The total outstanding debt that is secured by an ad valorem tax pledge is $1,300,330 including $54,855 that is reported in business-type activities.

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

Interfund Borrowings

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

In May 2008, a loan was authorized from the City's Other Internal Service Fund to the City's Tax Increment Reinvestment Zone to finance the purchase of the draft River North Master Plan, in an amount not to exceed $650. The principal amount of the loan was $648, with quarterly interest to be calculated at the City's pooled investment portfolio rate. The City's average rate for the year ended September 30, 2010, was 0.5%, resulting in interest of $3. Repayment of the principal and interest on this loan will occur as funding is available from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2010:

Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010
$ 648	$ -	$ -	$ 648

(The remainder of this page left blank intentionally)

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

In June 2009, a loan in the amount of $460 was authorized for a period of not more than two years from the City's Other Internal Service Fund to the General Fund to finance the City's participation in an interagency agreement with the San Antonio Water System to implement a water efficiency project at the HemisFair Fountain. Upon completion of the project, the City was eligible for a one-time rebate, subject to SAWS Board approval. In January 2010, the City received a rebate of $182. This rebate will be used to reimburse the loan from the Other Internal Service Fund along with the annual utility savings that will be realized in the Downtown Operations Department Operating Budget (General Fund) by reducing the Fountain's need to use SAWS water.

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

The following is a summary of changes in the loan for the year ended September 30, 2010:

Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010
$ 460	$ -	$ 203	$ 257

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, 2010 were approximately $7,636.

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

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

Machinery and Equipment	$ 38,423
Less: Accumulated Depreciation	(21,290)
Total	$ 17,133

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2010, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2011	$ 3,621	$ 7,267	$ 10,888
2012	1,437	6,755	8,192
2013	699	5,349	6,048
2014	281	3,175	3,456
2015		2,029	2,029
2016-2020		7,308	7,308
2021-2025		1,413	1,413
2026-After		412	412
Future Minimum Lease Payments	6,038	$ 33,708	$ 39,746
Less: Interest	(242)		
Present Value of Future Minimum Lease Payments	5,796		
Less: Current Portion	(3,467)		
Capital Lease, Net of Current Portion	$ 2,329		

Business-Type Activity Long-Term Debt

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

Airport System – The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt consists of Airport System Revenue Improvement Bonds (GAR) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GAR Bonds are payable from and secured solely by an irrevocable first lien on and pledge of the gross revenues of the Airport System. Gross revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities. PFC Bonds are payable from and secured by an irrevocable first lien on and pledge of the PFC revenues and a first lien on and pledge of the subordinate net revenues.

On March 18, 2010, the City issued $34,500 in Tax Notes, Series 2010. The Notes were issued to provide interim financing to fund $15,250 in General Airport capital improvements and $19,250 in PFC eligible capital improvements at the San Antonio International Airport. The Notes mature in 2011 and have an interest rate of 0.6%. While the Notes are secured by ad valorem taxes, no property taxes will be utilized to pay the debt service on the Notes and the Notes will be refunded through the issuances of GAR and PFC Bonds planned for fiscal year 2011.

Parking System – The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of taxable general obligation debt and is paid from revenues derived from the operation of the Parking System. The allocated debt is secured by an ad valorem tax pledge.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

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

On March 23, 2010, $545 of the $156,255 General Improvement Refunding Bonds, Series 2010 was allocated to Solid Waste Management. The net proceeds for the allocated portion of the bonds from the sale of the General Improvement Refunding Bonds, Series 2010, which included a premium of $72, were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, the City will realize a total decrease of $37 in debt service payments and total deferred charges of $44. Through this defeasance, the City obtained an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $23. The allocated Bonds have maturities ranging from 2018 to 2021, with interest rates ranging from 2.0% to 5.0%.

Capitalized Interest Costs - Interest costs incurred on revenue bonds and other borrowing totaled $18,890 for the Airport System. For fiscal year 2010, the amount of $3,736 was capitalized for the Airport System and included as an addition to construction in progress. Interest costs for nonmajor enterprise funds were not capitalized as there was no construction in progress in these funds during fiscal year 2010.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain revenue bonds. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amount scheduled to mature in principal amounts that, when added to interest earned on the Purchase Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2010, $18,435 of previously defeased bonds was outstanding.

(The remainder of this page left blank intentionally)

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 debt obligations for the fiscal year ended September 30, 2010:

Business-type Activity Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2009	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2010
Airport System:							
Revenue Bonds:							
Series 2001	$ 17,795	2016	5.375	$ 17,795	$ -	$ -	$ 17,795
Series 2002	92,470	2027	5.000-5.750	85,450		2,410	83,040
Series 2002 PFC	37,575	2027	4.000-5.750	31,400		1,040	30,360
Series 2003 Refunding	50,230	2013	5.500-6.000	23,525		5,380	18,145
Series 2005 PFC	38,085	2030	3.375-5.250	34,590		955	33,635
Series 2006	17,850	2014	5.000	14,095		2,410	11,685
Series 2007	82,400	2032	4.950-5.250	82,400		1,965	80,435
Series 2007 PFC	74,860	2032	5.000-5.250	71,125		1,695	69,430
Tax Notes							
Series 2010	34,500	2011	0.600		34,500		34,500
Subtotal	$ 445,765			$ 360,380	$ 34,500	$ 15,855	$ 379,025
Parking System:							
General Obligation Bonds:							
Series 2004 Refunding	$ 13,245	2016	2.800-4.650	$ 7,455	$ -	$ 700	$ 6,755
Series 2008 Refunding	10,120	2024	5.820-6.570	10,120			10,120
Subtotal	$ 23,365			$ 17,575	$ -	$ 700	$ 16,875
Solid Waste Management:							
General Obligation Bonds:							
Series 2006 Refunding	$ 1,000	2026	3.500-5.000	$ 905	$ -	$ 105	$ 800
Series 2010 Refunding	545	2021	2.000-5.000		545		545
Certificate of Obligations:							
Series 2006	400	2026	3.500-5.000	365		15	350
Series 2007	2,500	2028	4.000-5.000	2,350		565	1,785
Subtotal	$ 4,445			$ 3,620	$ 545	$ 685	$ 3,480
Total	$ 473,575			$ 381,575	$ 35,045	$ 17,240	$ 399,380

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding at September 30, 2010 are as follows:

Principal and Interest Requirements

Year Ending	Airport System			Parking System			Solid Waste Management		
Sept. 30:	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	$ 17,210	$ 18,158	$ 35,368	$ 800	$ 901	$ 1,701	$ 135	$ 164	$ 299
2012	52,625	17,541	70,166	1,175	862	2,037	140	157	297
2013	19,135	16,226	35,361	1,300	810	2,110	145	151	296
2014	17,170	15,168	32,338	1,480	750	2,230	150	145	295
2015	18,265	14,259	32,524	1,000	694	1,694	165	137	302
2016-2020	72,625	58,139	130,764	5,465	2,773	8,238	925	549	1,474
2021-2025	84,440	38,610	123,050	5,655	934	6,589	1,180	303	1,483
2026-2030	76,120	15,919	92,039				640	53	693
2031-2035	21,435	1,665	23,100						
Total	$ 379,025	$ 195,685	$ 574,710	$ 16,875	$ 7,724	$ 24,599	$ 3,480	$ 1,659	$ 5,139

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases

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

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

Machinery and Equipment	$ 23,893
Less: Accumulated Depreciation	(5,781)
Total	$ 18,112

As of September 30, 2010, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,			
2011	$ 8,467	$ 318	$ 8,785
2012	5,776	18	5,794
2013	4,671		4,671
2014	3,422		3,422
2015	3,374		3,374
2016-2017	2,071		2,071
Future Minimum Lease Payments	27,781	$ 336	$ 28,117
Less: Interest	(2,166)		
Present Value of Future Minimum Lease Payments	25,615		
Less: Current Portion	(7,688)		
Capital Leases, Net of Current Portion	$ 17,927		

(The remainder of this page left blank intentionally)

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 731,270	$ 356,060	$ (174,430)	$ 912,900	$ 72,780
Tax-Exempt Certificates of Obligation	348,235	38,375	(82,975)	303,635	26,545
Taxable Certificates of Obligation	155		(75)	80	80
Tax Notes	48,095	9,655	(28,890)	28,860	10,855
Revenue Bonds	570,252	9,090	(21,955)	557,387	10,197
Gross Bonds Payable	1,698,007	413,180	(308,325)	1,802,862	120,457
Unamortized (Discount) / Premium	46,566	27,680	(10,220)	64,026	7,462
Deferred Amount on Refunding	(14,038)	(13,780)	2,444	(25,374)	(1,919)
Net Bonds Payable	1,730,535	427,080	(316,101)	1,841,514	126,000
Total Commercial Paper [1]	25,805		(11,435)	14,370	
Other Payables:					
Accrued Arbitrage Rebate Payable [3]	182		(182)	-	
Capital Lease Liability	10,567		(4,771)	5,796	3,467
Accrued Leave Payable	184,080	4,751	(270)	188,561	41,788
Notes Payable	53,355		(2,475)	50,880	2,000
Pollution Remediation Liability [4]	904	1,529	(608)	1,825	
Net OPEB Obligation [2]	41,441	18,661		60,102	
Total Other Payables	290,529	24,941	(8,306)	307,164	47,255
Total Governmental Activities Long-Term Liabilities	$ 2,046,869	$ 452,021	$ (335,842)	$ 2,163,048	$ 173,255
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	$ 18,480	$ 545	$ (805)	$ 18,220	$ 835
Tax-Exempt Certificates of Obligation	2,715		(580)	2,135	100
Tax Notes		34,500		34,500	
Revenue Bonds	360,380		(15,855)	344,525	17,210
Gross Bonds Payable	381,575	35,045	(17,240)	399,380	18,145
Unamortized (Discount) / Premium	10,185	94	(1,112)	9,167	966
Deferred Amount on Refunding	(4,206)	(44)	729	(3,521)	(726)
Net Bonds Payable	387,554	35,095	(17,623)	405,026	18,385
Capital Lease Liability	24,664	7,495	(6,544)	25,615	7,688
Accrued Landfill Postclosure Costs [3]	2,353		(296)	2,057	177
Pollution Remediation Liability [4]	700			700	
Net OPEB Obligation [2]	8,510	3,632		12,142	
Accrued Leave Payable	4,390		(121)	4,269	712
Total Other Payables	40,617	11,127	(6,961)	44,783	8,577
Total Business-Type Activities Long-Term Liabilities	$ 428,171	$ 46,222	$ (24,584)	$ 449,809	$ 26,962

NOTE: The accreted interest through fiscal year 2010 has resulted in an increase of $20,077 in Hotel Occupancy Tax Revenue Bonds payable in governmental activities. The accreted interest in the amount of $20,077 is reflected on the governmental fund combined statement but is not reflected in this table.

[1] See Note 7, Commercial Paper Programs for a description of the commercial paper program.

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

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

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

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

Accrued Leave

The following is a summary of accrued leave for the year-ended September 30, 2010:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 12,433	$ 28,902	$ 41,335	$ 144,511	$ 185,846
Internal Service Funds		453	453	2,262	2,715
Total Governmental Activities	$ 12,433	$ 29,355	$ 41,788	$ 146,773	$ 188,561

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

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport System	$ 372	$ 1,858	$ 2,230
Nonmajor Enterprise Funds	340	1,699	2,039
Total Business-Type Activities	$ 712	$ 3,557	$ 4,269

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2010, the aggregate principal amounts payable are as follows: seven series of Education Facility Revenue Bonds in the amount of $113,174; and one series of Empowerment Zone Development Revenue Bonds in the amount of $12,800.

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, 2010, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $265,139 and an aggregate principal amount issued of $223,802.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 at September 30, 2010 was $3,000.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2010, the aggregate amount of the outstanding loan totaled $12,155.

The City has authorized San Antonio Housing Trust Finance Corporation to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the City of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2010, the amount of conduit debt was $49,188.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term prepaid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2010, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of $587,940.

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

CPS Energy

To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2010 these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

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

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt with cash. A bond defeasance occurs when cash is placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment with cash, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheets, the related unamortized costs are expensed and the gain or loss is immediately recognized.

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

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

On January 20, 2009, CPE Energy's board of trustees authorized the establishment of a flexible rate revolving note program to provide additional liquidity in support of the Systems. Under the program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100,000. The program became effective on April 28, 2009, and authorizes the issuance of such notes through November 1, 2028. There were no outstanding notes under this program as of January 31, 2010.

As of January 31, 2010, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

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

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

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

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

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

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

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government code, as amended;

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

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

As of January 31, 2010, the Tax-Exempt Commercial Paper (TECP) Ordinance contains, among others, the following provisions:

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

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

Revenue Bonds

On March 12, 2009, CPS Energy issued $442,005 of New Series 2009A Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2015 to 2034, was 4.9%. The bond proceeds, including the premium associated with the bonds, were used on March 13, 2009 to refund $450,000 of outstanding TECP obligations.

The American Recovery and Reinvestment Act of 2009 provided authority for the issuance of Build America Bonds (BABs), which are issuable in calendar years 2009 and 2010, limited to new money capital expenditures, and only issued as taxable bonds. The BABs also permit the issuer (or the bondholder) to receive a subsidy payment equal to 35.0% of the bond's interest directly from the U.S. Department of the Treasury. On June 12, 2009, CPS Energy issued $375,000 of taxable New Series 2009C Revenue Direct Subsidy BABs. The true interest cost for this issue, which has maturities that extend from 2033 to 2039, was 3.9%. The total BABs subsidy received in fiscal year 2010 was $5,000. Total bond proceeds are primarily being used to fund generation and electric distribution construction projects.

At one point, CPS Energy contemplated issuing a portion of the 2009C instruments as nontaxable bonds. These would have been 2009B Revenue Bonds (2009B Bonds). Since the effective interest rate and investor interest were more favorable for BABs, the 2009B Bonds were not pursued.

On July 30, 2009, CPS Energy issued $207,940 of tax exempt New Series 2009D Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2017 to 2021, was 3.7%. On September 1, 2009, the escrowed proceeds, including the premium associated with the bonds, were used to refund $227,660 par value of the remaining New Series 1998A Bonds. This refunding transaction resulted in a net present value debt service savings of $14,800, or 6.5% of the par amount of the bonds being refunded.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

CPS Energy Revenue Bond Summary		
Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2010	January 31, 2010
Tax Exempt New Series Bonds, 1994A-2009D; 2011-2034	4.8%	$ 3,366,495
Taxable new series bonds 2009C, 2033-2039	3.9%	375,000
Total	4.6%	3,741,495
Tax Exempt Variable-Rate Series Bonds, 2003-2004, 2024-2033		402,000
Total Long-Term Revenue Bonds Outstanding		4,143,495
Less: Current Maturities of Bonds		162,235
Total Revenue Bonds Outstanding, Net of Current Maturities		$ 3,981,260

As of January 31, 2010, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

CPS Energy Principal and Interest Requirements				
Year	Principal	Interest	Direct Subsidy	Total
2011	$ 162,235	$ 197,855	$ (7,855)	$ 352,235
2012	176,190	189,476	(7,855)	357,811
2013	173,925	180,519	(7,855)	346,589
2014	184,255	171,335	(7,855)	347,735
2015	157,035	161,584	(7,855)	310,764
2016-2020	863,970	684,623	(39,277)	1,509,316
2021-2025	1,185,445	449,965	(39,277)	1,596,133
2026-2030	496,965	238,727	(39,277)	696,415
2031-2035	476,333	135,727	(37,803)	574,257
2036-2039	267,142	40,734	(14,257)	293,619
Totals	$ 4,143,495	$ 2,450,545	$ (209,166)	$ 6,384,874

The above table includes Senior Lien and Junior Lien bonds. Interest on the Senior Lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the New Series 2009C BABs has been presented in a separate column. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service.

The 2003 Junior Lien bonds were issued as variable-rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2007, the 2004 Junior Lien bonds were remarketed for a three-year term at an interest rate of 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2010. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 1.5% for the 2003 and 2004 Junior Lien Bonds.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

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

The turmoil in the capital markets has had a minimal impact on CPS Energy's variable-rate debt. Initially, rates increased during a two-month period at the onset of the financial crisis, but have since decreased and stabilized. CPS Energy continues to monitor the markets on a daily basis and is in close communication with its remarketing agents, financial advisors and bond counsel.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2009	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2010
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ -	$ 68,965
1998A Tax Exempt	785,515	2021	4.918	227,660		227,660	
2000A Tax Exempt	170,770	2010	5.374	2,490		2,490	
2001 Tax Exempt	115,280	2011	3.843	38,135		25,710	12,425
2002 Tax Exempt	436,090	2017	4.055	406,610		45,030	361,580
2002 Tax Exempt	140,615	2015	4.751	10,525			10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	81,550		310	81,240
2003 Tax Exempt	350,490	2013	3.081	144,785		25,835	118,950
2004 Tax Exempt Junion Lien	160,000	2027	Variable	152,000			152,000
2005 Tax Exempt	294,625	2020	4.381	294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675			240,675
2005A Tax Exempt	197,335	2025	4.571	197,335			197,335
2006A Tax Exempt	384,185	2025	4.555	371,515		13,290	358,225
2006B Tax Exempt	128,845	2021	3.974	112,670		8,540	104,130
2007 Tax Exempt	46,195	2018	4.159	46,195			46,195
2007 Tax Exempt	403,215	2032	4.575	403,215			403,215
2008 Tax Exempt	287,935	2032	4.582	287,935			287,935
2008A Tax Exempt	158,030	2016	3.736	158,030		27,500	130,530
2009A Tax Exempt	442,005	2034	4.863		442,005		442,005
2009C Taxable	375,000	2039	3.944		375,000		375,000
2009D Tax Exempt	207,940	2021	3.720		207,940		207,940
				3,494,915	1,024,945	376,365	4,143,495
Bonds Outstanding:							
Bond Current Maturities				(148,705)	(13,530)		(162,235)
Bond (Discount)/Premium				124,408	33,975	21,051	137,332
Bond Reacquisition Costs				(76,497)	(11,889)	(27,078)	(61,308)
Revenue Bonds, Net				3,394,121	1,033,501	370,338	4,057,284
Tax Exempt Commercial Paper (TECP)			Variable	450,000	350,000	450,000	350,000
Total Long-Term Debt, Net				$ 3,844,121	$ 1,383,501	$ 820,338	$ 4,407,284

Accrued Leave

As of January 31, 2010 the accruals for employee vested benefits were $15,500. These accruals are reported under Accounts Payable and Other Current Liabilities.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS)

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

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

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

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

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

Revenue Bonds

On February 12, 2009, SAWS issued $163,755 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, (ii) refund $143,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

On December 10, 2009, SAWS issued $12,250 City of San Antonio, Texas Water System Revenue Bonds, Series 2009A. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

(The remainder of this page left blank intentionally)

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

On December 10, 2009, SAWS issued $102,750 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds) (the Series 2009B Bonds). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2009B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the Stimulus Act). In connection with the issuance of the Series 2009B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the Treasury) a subsidy payment equal to 35.0% of the taxable interest it pays on the Series 2009B Bonds (the Tax Credit). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2009B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2009B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2009B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2009B Bonds. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

On December 30, 2009, SAWS issued $54,300 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2009 through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On December 30, 2009, SAWS issued $35,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009A (the Junior Lien Series 2009A Bonds) through the Texas Water Development Board. The bonds were sold under the Water Infrastructure Fund Loan Program (the WIF). The proceeds from the sale of the bonds were used to (i) finance the planning and design of the Brackish Groundwater Desalination Project, (ii) refund $12,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. Loans through the WIF are offered at a subsidized interest rate which is 2.0% below the Texas Water Development Board's cost of funds, with a repayment period of 20 years. In order to advance projects which have significant development lead times, a portion of the WIF is available specifically for planning and design of projects (WIF Deferred), which offers an additional subsidy of deferring all interest and principal payments for up to 10 years, or until the end of the construction of the project, whichever is sooner. Interest is not charged by the Texas Water Development Board during the deferral period and the loan is amortized over the remaining life of the bond with a maximum maturity of 20 years. The Junior Lien Series 2009A Bonds were issued under the WIF Deferred option with amortization of principal and interest to begin in 2015 with a final maturity of 2029. The interest rates range from 0.6% to 2.8%, with an overall effective rate of 1.4% taking into account the deferral period. The bonds are collateralized, together with other currently outstanding Junior Lien Obligations, solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, and Series 2009B outstanding in the amount of $1,395,665 at December 31, 2009, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses. Interest rates range from 2.5% to 6.3%.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007, Series 2007A, Series 2008, Series 2008A, Series 2009, and Series 2009A outstanding in the amount of $364,035 at December 31, 2009, are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt. Interest rates range from 0.3% to 4.4%.

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2009:

	Beginning Balance Jan. 1, 2009	Additions	Reductions	Ending Balance Dec. 31, 2009	Due Within One Year
Bonds Payable	$ 1,427,525	$ 368,055	$ 35,880	$ 1,759,700	$ 38,590
Deferred Amounts for Issuance (Discounts)/Premiums/(Losses)	(19,343)	$ 3,345	13	(16,011)	
Total Bonds payable, Net	$ 1,408,182	$ 371,400	$ 35,893	$ 1,743,689	$ 38,590

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

Annual Debt Service Requirements Revenue and Refunding Bonds						
	Senior Lien				Junior Lien	
Year Ended December 31,	Principal	Interest Expense	Federal Subsidy	Net Interest	Principal	Interest Expense
2010	$ 21,685	$ 68,313	$ (1,772)	$ 66,541	$ 16,905	$ 10,770
2011	22,360	67,753	(1,904)	65,849	17,135	10,550
2012	23,365	66,746	(1,904)	64,842	17,615	10,068
2013	24,410	65,620	(1,904)	63,716	18,210	9,543
2014	25,635	64,374	(1,904)	62,470	18,790	8,978
2015-2019	154,460	300,186	(9,052)	291,134	113,170	38,046
2020-2024	254,515	249,354	(7,803)	241,551	74,725	22,401
2025-2029	302,695	175,807	(6,052)	169,755	40,265	13,311
2030-2034	228,545	113,782	(3,967)	109,815	22,475	7,786
2035-2039	295,455	47,153	(1,430)	45,723	24,745	2,504
2040	42,540	1,064		1,064		
Total	$ 1,395,665	$ 1,220,152	$ (37,692)	$ 1,182,460	$ 364,035	$ 133,957

(The remainder of this page left blank intentionally)

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

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

Defeasance of Debt – In current and prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2009, $44,605 of bonds outstanding were considered defeased.

Accrued Vacation Payable – SAWS records an accrual for vacation payable for all full-time employees and pays unused vacation hours available at the end of employment with the final paycheck. These accruals are reported under Other Payables.

	Liability Balance at Beginning of Fiscal Year	Current-Year Accruals	Payments	Liability Balance at End of Fiscal Year	Estimated Due Within One Year
Year Ended December 31, 2009	$ 6,328	$ 5,659	$ (4,785)	$ 7,202	$ 4,785

Note 7 Commercial Paper Programs

Primary Government (City)

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2010, $14,370 of Commercial Paper Notes are outstanding with various maturities ranging from 1 to 270 days.

The Commercial Paper Notes are supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider is to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider has issued its irrevocable, direct-pay Letter of Credit for the account of the City and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the Commercial Paper Notes is Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent is Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enables the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes shall mature later than August 1, 2017. Under the terms of the Letter of Credit, the City may borrow up to an aggregate amount not to exceed $50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement will expire April 30, 2012, unless previously terminated or extended. As of September 30, 2010, there have been no borrowings under the Letter of Credit.

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

Note 7 Commercial Paper Programs (Continued)

Primary Government (City) (Continued)

Issue	Balance Outstanding October 1, 2009	Additions	Deletions	Balance Outstanding September 30, 2010
Series A (2007)	$ 25,805	$ -	$ (11,435)	$ 14,370

CPS Energy

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

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the amended revolving credit agreement, effective September 6, 2007, CPS Energy may borrow up to an aggregate amount not to exceed $450,000 for the purpose of paying principal due under the TECP. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012. At January 31, 2010, there was no amount outstanding under the agreement. Further, there have been no borrowings under the agreement since inception.

On March 12, 2009, CPS Energy issued $442,000 of New Series 2009A Revenue Refunding Bonds to refund $450,000 of outstanding TECP. On March 16, 2009, CPS Energy issued $260,000 of TECP. On November 24 and December 29, 2009, CPS Energy issued $30,000 and $40,000 of TECP, respectively. All proceeds were used to fund generation and distribution construction projects.

On January 28, 2010, CPS Energy issued an additional $20,000 of TECP, which was used to remediate debt.

The current outstanding TECP balance as of January 31, 2010, was $350,000. Of the total TECP outstanding at January 31, 2010, $130,000 was used to fund the development of STP Units 3 and 4. The TECP is secured by the net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations.

TECP Outstanding	$ 350,000
TECP New Money Issues	350,000
Weighted Average Interest Rate of Outstanding TECP	0.3%
Average Life of Outstanding TECP (Approximate Number of Days)	93

San Antonio Water System (SAWS)

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. The City Council of the City of San Antonio has authorized the commercial paper program in an amount of $500,000. Notes payable under the program cannot exceed maturities of 270 days.

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

The City has covenanted in the ordinance authorizing the commercial paper program (the Note Ordinance) to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement. Pursuant to the most recent amendment to the revolving credit agreement, the capacity of the revolving credit agreement has been reduced to $300,000.

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

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

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

Commercial paper notes of $173,650 are outstanding as of December 31, 2009. Of this balance, $109,130 relates to the refunding of the Series 2003 Bonds while the remaining $64,520 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2009 range from 0.2% to 0.4% and maturities range from 16 to 126 days. The outstanding notes had an average rate of 0.3% and averaged 96 days to maturity.

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed in Note 6, SAWS intends to redeem $2,600 of commercial paper in 2010. Therefore, this portion of the commercial paper is classified as a current liability.

The following summarizes transactions of the program for the year-ended December 31, 2009.

	Beginning Balance January 1, 2009	Additions	Reductions	Ending Balance December 31, 2009
Tax Exempt Commercial Paper Notes	$ 261,115	$ 70,000	$ 157,465	$ 173,650

(The remainder of this page left blank intentionally)

Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

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

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Plan	Single Employer Defined Benefit Plan	$ 259,904	$ 34,849	$ 64,498	$ 99,347
	Texas Municipal Retirement System (TMRS) - Civilian	Nontraditional Hybrid Defined Benefit Agent Plan	$ 258,932	$ 15,544	$ 32,338	$ 47,882
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 81,821	$ 2,553	$ 4,275	$ 6,828
	[1] SAWSRP Contract	Single Employer Defined Benefit Plan	$ 82,923	$ -	$ 6,035	$ 6,035
CPS Energy	[2] CPS All Employee Plan	Single Employer Defined Benefit Plan	$ 219,716	$ 11,212	$ 23,732	$ 34,944

[1] Plan year ended December 31, 2009

[2] Fiscal year ended January 31, 2010

(The remainder of this page left blank intentionally)

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund was amended on October 1, 2009. The Pension Fund is administered by a nine-member board of trustees (Board), which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City of San Antonio as established by *Governmental Accounting Financial and Reporting Standards* and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Plan is provided in the summary plan description. At September 30, 2010, membership of the Pension Fund consisted of:

	2010
Retirees and beneficiaries receiving benefits	2,085
Active participants	3,807
Total	5,892

Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. Employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. The retirement annuity computation (Annuity Computation) for employees retiring after September 30, 2009 is 2.3% of such average for each of the first 20 years served, plus 5.0% of the member's average total salary for each of the next seven years, plus 0.5% of the member's average total salary for each of the next three years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary. The minimum monthly pension provided to a member or the member's beneficiaries is $1,850 (please note figure not reflected in thousands). If there is more than one beneficiary, the minimum pension is divided between them.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2007, permits retiring members who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years or 48 months and a reduced annuity payment. As of October 1, 2009, the maximum BackDROP period is increased to 60 months. For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

There is also a provision for a thirteenth and fourteenth pension check. At the end of each fiscal year, the Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year). Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund did not meet the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2010.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75.0% to the spouse and 25.0% to the children. The spousal death benefit for a spouse who married a retiree after retirement and at least five years prior to the date of the retiree's death is the same as a spouse who married a member prior to retirement. At October 1, 2009 amendments establish a 55-year-old minimum age for marriage-after-retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments. As of October 1, 2009, the spousal death benefit for a spouse who married a retiree after retirement, and less than five years prior to the date of the retiree's death, was $15,000 (please note figure not reflected in thousands).

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

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

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

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

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers – U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, receive an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1997, receive an increase equal to 100.0% of the increase in the CPI up to 8.0% and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1997 receive an increase equal to 75.0% of the increase in the CPI. On October 1, 2007, a special cost of living increase of $200 per month (please note figure not reflected in thousands) was awarded to members who retired prior to October 1, 1989 or their beneficiaries. If there is more than one beneficiary, the special COLA is divided between them. The cost of living increase is awarded prior to determining the minimum monthly pension. Beginning October 1, 2009, the COLA for members who retired between October 1, 1997 and September 30, 1999, is increased to 100.0% of the increase in CPI up to 8.0% and 75.0% of the increase in the CPI in excess of 8.0%.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Beginning October 1, 2009, the Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The Pension Fund's contribution requirements are established and funded in accordance with Texas state statues and are not actuarially determined. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2010. The employee contribution rate was 12.3% in 2010. New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new member contributes to the Pension Fund upon becoming eligible. As part of the amendments effective October 1, 2009, from October 1, 2009 to December 31, 2009, members who served probationary time prior to becoming a member were allowed to elect to purchase service credit for that time. If the member elected to purchase the service credit, the member was responsible for paying 3 times the member's contribution rate that would have been due during the probationary period, with interest calculated from the time of the probation until the amount was paid.

The annual required contributions for fiscal year 2010 were determined as part of the October 2009 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) a projected annual salary increase of 4.3%. Both (a) and (b) include inflation components of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2009 was 10.4 years which, as reported under GASB guidelines, does not consider the assumption of payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Contributions for the year-ended September 30, 2010 were as follows:

	2010	
		Percentage of Covered Payroll
Employer	$ 64,498	24.6%
Employee	32,249	12.3%
Total	96,747	
Purchase of Service Credit	2,600	
	$ 99,347	

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

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

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

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

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

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

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

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2009, is the agent for 837 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

At its December 4, 2009 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2009. A summary of actuarial assumptions and methods definitions can be found later in this note.

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

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year-ended December 31, 2009 resulted in an $187,969 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2011 contribution rate under a 29-year amortization period for the City was estimated by TMRS to be 12.4%. However, under the phase-in option the rate would be not applicable for calendar year 2011.

During fiscal year 2008, the City created a work plan to review and address the changes made by TMRS, obtained a voting seat on the TMRS Board, and conducted six focus groups with employees and retirees asking input via a survey on their TMRS benefits and priorities. The survey results provided valuable input as the City continues to evaluate its options.

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

As approved by City Council, the annual repeating COLA applied towards retirees' accounts were turned off in the fiscal year 2010 budget. This resulted in a reduction in the City's contribution rate from a phased in rate of 13.9% to 12.3%. Ad hoc COLAs remain available to retirees subject to certain retroactive requirements. The City is continuing to evaluate additional options in coordination with the task force of current employees and retirees.

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

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

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

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

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent was 12.4% for calendar year 2009, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates includes recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 29-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new 29-year period. Currently, the unfunded actuarial liability is amortized over a constant 29-year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

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

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2008, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2009.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 833 administered by TMRS, an agent multiple-employer public employee retirement system.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at age 60 and above with 5 or more years of services or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by SAWS within the options available and actuarial constraints in the state statutes governing TMRS.

Under the state law governing TMRS, SAWS is required to contribute at an actuarially determined rate. These rates are provided on an annual basis, following the completion of the actuarial valuation. There is a delay in the valuation and when the rate becomes effective – for example the 2009 contribution rate is based on the December 31, 2007 valuation results. If a change in plan provisions is adopted by SAWS' Board of Trustees, the contribution rate can change.

Beginning with the December 31, 2007 actuarial valuation, a change was made in the funding method and the amortization period used in the valuation. To assist in this transition to higher rates, TMRS approved an eight-year phase-in period, which allows governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS elected to transition the increase in its contribution rate over the eight-year phase-in period. As a result of these changes, SAWS' actuarially required contribution for 2009 was 5.0% while the phased-in rate of 2009 was 3.8% of salary. The current contribution rate for employees is 3.0% of salary.

TMRS
Schedule of Contributions

	2009
Employer Contribution	$ 4,275
Employee Contribution	$ 2,553
Employer Contribution Rate	5.0%

San Antonio Water System Retirement Plan (SAWSRP)

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

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

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

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

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

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

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

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

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

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

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

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to SAWSRP shall be paid by SAWS.

A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

SAWSRP Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal - Frozen Initial Liability Period
Amortization Method	Level Dollar
Remaining Amortization Period	28 Years - Closed Period
Asset Valuation Method	Smoothed Market Value (4 years)
Investment Rate of Return	8.0%
Inflation Rate	None
Salary Scale	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Cost of Living Adjustments	None

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

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

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Financial Group at:

711 High Street
Des Moines, Iowa 50392
Telephone: (800) 986-3343
Website: www.principal.com

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

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

CPS Energy

All Employee Plan

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

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

The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained by contacting Benefit Trust Administration at CPS Energy. Plan net assets had a market value of $973,700 at December 31, 2009.

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

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were $120 for fiscal year 2010. These costs were recorded when paid.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Funding Policy – The current policy of CPS Energy is to establish funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are normally fully vested in CPS Energy's contribution after completing seven years of credited service or upon reaching age 40. Employee contributions commence with the effective date of participation and continue until normal or early retirement, completion of 44 years of benefit service, or termination of employment. The employee contribution interest crediting rate was 8.0% for fiscal year 2010.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For fiscal year 2009, the amount to be funded was established using a general target near the 20-year funding contribution level as determined by the Plan's actuary. CPS Energy's contributions in relation to the annual required contribution (ARC) amounted to 10.8% of covered payroll in fiscal year 2010.

Annual Pension Cost and Net Pension Obligation – CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2010 is presented at the end of this note. The NPO may be either positive, reflecting a liability, or negative, reflecting an asset. The term net pension obligation, as used in this Note, refers to either situation.

Funded Status and Funding Progress – The funded status of the Plan as of February 1, 2009 valuation date is noted at the end of this note. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Beginning with the 2008 Plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. Actuarial valuation methods used for the February 1, 2009 valuation included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial accrued liability, and (c) the twenty year level dollar open for amortization of pension service costs.

Significant actuarial assumptions used for the February 1, 2009, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 5.8%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

(The remainder of this page left blank intentionally)

Note 8 Pension and Retirement Plans (Continued)

Three-Year Trend Information

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

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In Relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of ARC Contributed
Fire and Police	2008	$ 58,101	$ -	$ -	$ 58,101	$ (58,101)	$ -	$ -	$ -	100.0%
Pension Plan City	2009	62,071			62,071	(62,071)				100.0%
of San Antonio	2010	64,498			64,498	(64,498)				100.0%
TMRS -	2008	$ 30,538	$ -	$ -	$ 30,538	$ (30,538)	$ -	$ -	$ -	100.0%
City of	2009	33,510			33,510	(33,510)				100.0%
San Antonio	2010	32,338			32,338	(32,338)				100.0%
CPS All	2008	$ 20,868	$ -	$ -	$ 20,868	$ (22,841)	$ (1,973)	$ -	$ (1,973)	109.5%
Employee Plan [1]	2009	20,561	(164)	193	20,590	(20,561)	29	(1,973)	(1,944)	99.9%
	2010	23,468	(156)	191	23,503	(23,732)	(229)	(1,944)	(2,173)	101.0%
TMRS -	2007	$ 2,386	$ -	$ -	$ 2,386	$ (2,386)	$ -	$ -	$ -	100.0%
SAWS [2]	2008	2,600			2,600	(2,600)				100.0%
	2009	4,275			4,275	(4,275)	1,066		1,066	100.0%
SAWRP -	2007	$ 4,710	$ -	$ -	$ 4,710	$ (4,710)	$ -	$ -	$ -	100.0%
SAWS [2]	2008	4,891			4,891	(4,891)				100.0%
	2009	6,035			6,035	(6,035)				100.0%

[1] Fiscal year-ended January 31, 2010
[2] Plan year-ended December 31, 2009

Funded Status and Funding Progress

	Fire and Police Pension Plan [1]	City of San Antonio TMRS [2]	SAWS TMRS	SAWS SAWSRP	CPS Energy
Actuarial value of plan assets (a)	$ 2,166,924	$ 515,884	$ 68,756	$ 77,365	$ 1,145,029
Actuarial accrued liability (b)	2,442,620	703,853	107,311	112,263	1,169,302
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 275,696	$ 187,969	$ 38,555	$ 34,898	$ 24,273
Funded ratio (a) / (b)	88.7%	73.3%	64.1%	68.9%	97.9%
Covered payroll (c)	$ 269,359	$ 258,932	$ 81,821	$ 82,923	$ 219,716
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	102.4%	72.6%	47.1%	42.1%	11.0%

1 Covered payroll presented in this table is as of 10/31/2009
2 Covered payroll presented in this table is as of 12/31/2009

(The remainder of this page left blank intentionally)

Note 8 Pension and Retirement Plans (Continued)

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2009, by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period - SAWS	28 Years - Closed Period
Remaining Amortization Period - City	28 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Return - City	7.5%
Investment Return - SAWS	8.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation At	3.0%
Cost of Living Adjustments	0.0%

Note 9 Postemployment Retirement Benefits

Primary Government (City)

Plan Description - In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides most retired employees with certain health benefits under two postemployment benefit programs. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City is required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 became applicable to the City in Fiscal Year 2008 and the City continues to actively review each of these programs having actuarial valuations performed for these programs as required.

The first of the two programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program compromises 4 self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007, 50.0% for retirees hired on or after October 2007 with 10+ years of service to City of San Antonio and 100.0% for retirees hired on or after October 2007 with 5-9 years of City of San Antonio service. Currently, there are 5,744 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. As of September 30, 2010, there were 551 retirees participating in this program.

The second program with 837 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 837 participating Medicare retirees, 280 participate in a fully insured Medicare Advantage HMO and the remaining 557 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

An additional 90 retirees participate in CitiMed which is a self-funded health plan administered by United Healthcare.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

With the adoption of the fiscal year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the Program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the Program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the Program and the City will contribute 50.0%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan. Please note that the number of employees, retirees, and deductible amounts in the above are not expressed in thousands.

Funding Policy - The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, based on the allocations described above. For retirees, total program expenses were $9,468 of which $7,468 were medical claims. For the year-ended September 30, 2010, total contributions were as follows:

Total Contributions	
City	$ 6,090
Retiree Premiums	3,378
Total Contributions	$ 9,468

No contributions were made in fiscal year 2010 to prefund benefits.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. As of September 30, 2010, the City received $534 in payments. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under the City's plan.

Annual OPEB Cost and Net OPEB Obligation - For the fiscal year-ended September 30, 2010, the City's annual postemployment benefits other than pension (OPEB) cost was not equal to its annual required contribution (ARC) to the plan. The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial balance over thirty years. The City will not be fully funding the ARC at this time. The City will continue to fund OPEB on a pay-as-you-go basis.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The table below details the actuarial methods and assumptions for the City's OPEB calculation for the fiscal year-ended September 30, 2010:

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

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

Below are the health care cost trend assumptions used for the City's January 1, 2010 actuarial study for the fiscal year-ended September 30, 2010.

City's Health Care Cost Trend Assumptions

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

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

Fire and Police Retiree Health Care Fund

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

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

WEB-TPA Employer Services, LLC serves as the third party administrator for the Health Care Fund. Additional administrative services were provided to the Health Care Fund by PTRX, Inc. during fiscal year 2010.

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

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

Biweekly Contributions:	
Active Fire and Police Members	$82.76
City of San Antonio for Each Member	$228.80
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	$179.80
Dependent Children	$157.35

Total contributions by active firefighters and police officers were $8,055 for the year ended September 30, 2010.

Membership in the Plan consisted of the following at September 30, 2010:

Retirees and Beneficiaries Receiving Benefits	2,884
Active Plan Members	3,785
Total Membership	6,669

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

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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

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

Assumptions	
Valuation Date	10/1/2009
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	Open, 30 Years
Asset Valuation Method	5-Year Adjusted Market Rate
Actuarial Assumptions:	
Investment Rate of Return Net of Expense	8.0%
Annual Inflation Rate	4.0%
Projected Annual Salary Increases	4.5% to 15.0%
Health Care Cost Rate Trend:	8.0% Initial
	5.5% Ultimate
Annual Payroll Growth Rate	4.0%

CPS Energy

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

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

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the General Manager and CEO, the Chief Financial Officer and the Audit Committee Chair of the Board.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

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

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

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2¼% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $4,100 in fiscal year 2010.

CPS Energy's contributions in relation to the ARC for the Health Plan amounted to 6.3% of covered payroll in fiscal year 2010.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain Plan participants. These payments totaled $646 for fiscal year 2010. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under CPS Energy's Plan.

Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of $0.1 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2¼% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.1 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $228 in fiscal year 2010 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.1% of covered payroll in fiscal year 2010.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.3% of covered payroll in fiscal year 2010.

Annual OPEB Cost and Net OPEB Obligation – CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation and adjustments to the ARC for the Health, Life and Disability Plans. The annual OPEB cost was $8,800 for fiscal year 2009. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this Note, refers to either situation.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

CPS Energy has selected the aggregate cost method for determining Life and Disability Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the plans.

Actuarial Methods and Assumptions – Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information, present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The amortization method used for all three Plans was the level dollar open method. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods. The asset valuation method used for all three Plans was the five-year smoothed market valuation method. Beginning with the 2008 plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions.

Significant actuarial assumptions used in the calculations for the February 1, 2009 valuation included (a) a rate of return on the investment of present and future assets of 8.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 4.0% for the Disability Plan, (c) projected salary increases for the Health Plan ranging from 4.1% to 10.5% depending on age for base and other salaries and an inflation rate for salary increases of 3.5% for the Life and Disability Plans, and (d) medical cost increases projected at 8.5% for 2009 decreasing to 5.5% in 2016 and thereafter.

San Antonio Water System (SAWS)

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

By State law, any employee that retires under either the TMRS or SAWS retirement plans is eligible, at the time of retirement, to obtain health insurance benefits similar to those offered to active SAWS employees. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Retirees can purchase coverage for their spouse at SAWS' group rates. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

The following is the participant summary as of January 1, 2009 (the most recent actuarial valuation date):

Active employees	1,548
Retired employees	625
Spouses of retired employees	448
Total	2,621

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

Funding Policy – The contribution requirements of plan members and SAWS are established and may be amended by the SAWS Board of Trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' required contribution will be based on a projected pay-as-you-go financing requirement, with an additional amount, if any, to prefund benefits as determined annually by SAWS' Board of Trustees. SAWS is currently evaluating ways to phase-in full funding of the actuarially determined annual required contribution.

Plan members' required contributions vary depending on the health plan selected by the retiree as well as the number of years of service at the time of retirement. For the year-ended December 31, 2009, SAWS' contribution to the plan equaled the current premiums of $5,884, while plan members receiving benefits contributed $296 through their required contribution. No contributions were made in 2009 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation – For the year-ended December 31, 2009, SAWS' annual OPEB cost is calculated based on the annual required contributions (ARC).

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

Since no portion of SAWS' OPEB obligation has been funded in a separate trust as of December 31, 2009, SAWS does not issue a separate financial report for its OPEB plan.

In the January 1, 2009 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 4¾%, which is a blended rate of the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The investment return assumes SAWS will phase-in fully funding the annual required contribution over the years. There is not an inflation rate projected for this actuarial valuation. As of December 31, 2009, the UAAL is being amortized as a level dollar amount over a 28 year closed period.

(The remainder of this page left blank intentionally)

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

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

	Annual Rate of Increase		
Year Beginning January 1	Pre-Medicare Medical	Medicare Eligible Medical	Prescription Drugs
2010	7.4%	6.1%	8.3%
2011	7.3%	6.2%	8.0%
2012	7.2%	6.3%	7.8%
2013	7.1%	6.4%	7.6%
2014	7.1%	6.5%	7.4%
2015	7.0%	6.6%	7.2%
2016	6.9%	6.7%	7.0%
2017	6.8%	6.8%	6.8%
2018	6.6%	6.6%	6.6%
2019	6.4%	6.4%	6.4%
2020	6.2%	6.2%	6.2%
2021	6.0%	6.0%	6.0%
2022	5.8%	5.8%	5.8%
2023	5.6%	5.6%	5.6%
2024	5.4%	5.4%	5.4%
2025	5.2%	5.2%	5.2%
2026	5.0%	5.0%	5.0%
2027	4.9%	4.9%	4.9%
2028+	4.5%	4.5%	4.5%

Three-Year Trend Information

The City's, CPS Energy's and SAWS' annual OPEB cost, employer contributions, percentage cost contributed to the plan, and net OPEB obligation for fiscal years 2010, 2009 and 2008 were as follows:

Three-Year Trend Information										
Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligation	Adjustment To ARC	Annual OPEB Cost	Contributions In Relation to ARC	Increase (Decrease) in Net OPEB	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year	Percentage of ARC Contributed
City of San Antonio	2008	$ 29,786	$ -	$ -	$ 29,786	$ (7,914)	$ 21,872	$ -	$ 21,872	26.6%
	2009	35,818	656	(1,116)	35,358	(7,279)	28,079	21,872	49,951	14.6%
	2010	35,818	1,499	(2,549)	34,768	(12,475)	22,293	49,951	72,244	17.3%
CPS - Health Plan[1]	2008	$ 13,181	$ 71	$ (84)	$ 13,168	$ (43,864)	$ (30,696)	$ 893	$ (29,803)	333.1%
	2009	12,337	(2,384)	2,810	12,763	(15,192)	(2,429)	(29,803)	(32,232)	119.0%
	2010	7,940	(2,578)	3,040	8,402	(13,820)	(5,418)	(32,232)	(37,650)	164.5%
CPS - Life Plan[1]	2008	$ -	$ (7)	$ 8	$ 1	$ (349)	$ (348)	$ (90)	$ (438)	27007.3%
	2009		(35)	42	7	(127)	(120)	(438)	(558)	2028.4%
	2010		(45)	58	13	(140)	(127)	(558)	(685)	1039.3%
CPS - Disability Plan[1]	2008	$ 209	$ 9	$ (10)	$ 208	$ (291)	$ (83)	$ 106	$ 23	140.0%
	2009	285	2	(2)	285	(433)	(148)	23	(125)	151.9%
	2010	381	(10)	12	383	(617)	(234)	(125)	(359)	160.9%
SAWS - OPEB[2]	2007	$ 17,696	$ -	$ -	$ 17,696	$ (4,479)	$ 13,217	$ -	$ 13,217	25.3%
	2008	17,696	765		18,461	(5,132)	13,329	13,217	26,546	27.8%
	2009	25,759	1,261	(1,655)	25,365	(5,884)	19,481	26,546	46,027	28.7%

[1] Fiscal year-ended January 31, 2010
[2] Plan year-ended December 31, 2009

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

Note 9 Postemployment Retirement Benefits (Continued)

Three-Year Trend Information (Continued)

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

Funded Status and Funding Progress

Pension Plan	City of San Antonio	Fire and Police Health Care Fund	SAWS	CPS Energy Health Plan	CPS Energy Life Plan	CPS Energy Disability Plan
Actuarial value of plan assets (a)	$ -	$ 200,329	$ -	$ 204,246	$ 49,614	$ 3,763
Actuarial accrued liability (b)	342,018	549,466	297,259	219,364	35,491	6,575
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 342,018	$ 349,137	$ 297,259	$ 15,118	$ (14,123)	$ 2,812
Funded ratio (a) / (b)	0.0%	36.5%	0.0%	93.1%	139.8%	57.2%
Covered payroll (c)	$ 259,224	$ 236,372	$ 75,270	$ 219,716	$ 198,669	$ 198,669
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	131.9%	147.7%	394.9%	6.9%	-7.1%	1.4%

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

Units 1 and 2 – CPS Energy is one of three participants in STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,350 megawatts. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. The other participants in STP Units 1 and 2 are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STPNOC, a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

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.

CPS Energy's 40.0% ownership in STP Units 1 and 2 represents approximately 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

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

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

Joint Operations (Continued)

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

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

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

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

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

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

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

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

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

Joint Operations (Continued)

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

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

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

Nuclear Insurance

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

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1,100,000. 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.

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

Nuclear Insurance (Continued)

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

Nuclear Decommissioning

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the Nuclear Regulatory Commission (NRC) for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study conducted by the owners in March 2008 showed that CPS Energy's share of decommissioning costs was $386,300 in 2007 dollars. Included in the cost study was a 10.0% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28.0% Decommissioning Trust and an analysis of this cost study, CPS Energy determined that no further decommissioning contributions will be required to be deposited into the Decommissioning Trust.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% portion in an external trust in accordance with the NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be received from or distributed to CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, American Electric Power (AEP). This is referred to as the 12% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as requested in the future, excess or deficient funds related to the 12% Trust will be received from or distributed to AEP customers after decommissioning is complete.

CPS Energy has determined that some decommissioning activities will be required prior to shutdown of STP Units 1 and 2 at the end of the plant's life. Since the NRC prohibits any spending out of the Decommissioning Trusts for other than administrative expenses prior to shutdown, CPS Energy established a preshutdown account to fund decommissioning expenses incurred prior to shutdown. Contributions to fund preshutdown decommissioning costs for CPS Energy's 28.0% ownership in STP amounted to $2,200 in fiscal year 2010. Preshutdown decommissioning expenses for the 28.0% ownership totaled $270 for fiscal year 2010. For the 12.0% ownership, preshutdown costs were funded by AEP's ratepayers; preshutdown decommissioning expenses for this ownership totaled $116 for fiscal year 2010.

Excluding securities lending collateral, as of December 31, 2009, CPS Energy had accumulated approximately $266,800 in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 28% Trust funds allocated to decommissioning costs totaled $153,900, which exceeded the calculated financial assurance amount of $107,700 at December 31, 2008.

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

Nuclear Decommissioning (Continued)

The March 2008 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at $165,600 million in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2009, approximately $90,300 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 12% Trust funds allocated to decommissioning costs totaled $54,400, which exceeded the calculated financial assurance amount of $46,100 at December 31, 2008.

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

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

STP Pension Plan and Other Postretirement Benefits

STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Contributions totaling $11,300 were made in fiscal year 2009, of which $10,500 related to the 2009 plan year, while $800 related to plan year 2008. A final contribution of $448 for plan year 2009 will be required to be made by September 15, 2010, in order to meet minimum funding requirements of the Internal Revenue Code.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R).* FASB Statement No. 158 required STP, as the sponsor of a plan, to (a) recognize on its balance sheet as an asset the plan's overfunded status or as a liability the plan's underfunded status, (b) measure the plan's assets and obligations as of the end of the calendar year, and (c) recognize changes in the funded status of the plans in the year in which changes occur. Additional minimum liabilities are also derecognized upon adoption of the new standard. FAS No. 158 required STP to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect of the defined benefit funding obligations to CPS Energy was $(9,788) for fiscal year 2010 and was reflected as a reduction in Other Changes in Fund Net Assets on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Employees whose pension benefits exceed $230 for the 2008 Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

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

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

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

STP Pension Plan and Other Postretirement Benefits (Continued)

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

Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2009

	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	$ 240,915	$ 70,701
Service Cost	9,675	5,839
Interest Cost	14,336	4,151
Actuarial Loss	(2,331)	(953)
Benefits Paid	(3,350)	(2,748)
Benefit Obligation - Ending	259,245	76,990
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	132,279	8,706
Actual Return on Plan Assets	21,593	1,511
Employer Contributions	11,323	2,196
Benefits Paid	(3,350)	(2,748)
Fair Value of Plan Assets - Ending	161,845	9,665
Funded Status - Ending	(97,400)	(67,325)
Unrecognized Net Actuarial Loss	79,835	23,798
Unrecognized Prior Service Cost	6,752	(12,023)
Unrecognized Transition Obligation		251
Net Amount Recognized	(10,813)	(55,299)
Accrued Benefit Cost	$ (10,813)	$ (55,299)
Weighted-average Assumptions:		
Discount Rate	6.0%	6.0%
Expected Return on Plan Assets	8.0%	8.0%
Rate of Compensation Increase	3.0%	3.0%

Note 11 Commitments and Contingencies

Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2010. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2010 were $61,998.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2011. The estimated cost of these improvements is $711,036, which consist of the following:

Function/Program	FY 2011
General Government	
Information Technology	$ 18,145
Municipal Facilites	46,705
Other Facilities	6,561
Total General Government	$ 71,411
Public Health & Safety	
Drainage	$ 101,600
Fire Protection	27,435
Law Enforcement	88,296
Total Public Health & Safety	$ 217,331
Recreation & Culture	
Libraries	$ 17,539
Municipal Facilites	30,749
Parks	64,246
Total Recreation & Culture	$ 112,534
Transportation	
Air Transportation	$ 98,576
Street	211,184
Total Transportation	$ 309,760
Total Capital Plan	$ 711,036

These projects are scheduled to be funded with a combination of grants, contributions from others, bonds, certificates, notes and other designated City resources.

Litigation

The City is a party to various lawsuits alleging personal and property damages, wrongful death, breach of contract, property tax assessment disputes, environmental matters, class actions, employment claims and cases. The estimated liability, including an actuarially determined amount of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount of $23,135. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Insurance Reserve Fund are adequate to cover losses for which the City may be liable. Whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements cannot be determined.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional storm water detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008, but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff appealed. The Fourth Court of Appeals recently issued its opinion affirming the trial court's ruling awarding Kopplow $5 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Kopplow's motion for rehearing was denied on December 29, 2010. The City anticipates Kopplow will appeal this matter to the Texas Supreme Court.

Shawn Rosenbaum, et. al. v. City of San Antonio, et. al. Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area where she allegedly was struck by a City vehicle. Ms. Rosenbaum later died, allegedly as a result of this incident. Discovery is on-going. Damages in this matter are capped by the Texas Tort Claims Act at $250. A trial date has not been set.

Daniel Thomas, et. al. v. City of San Antonio, et. al. Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit in Federal Court against the City and the officers in their individual capacities. Discovery is on-going. If liability is determined, damages could be in excess of $250.

Chacon, et. al. v. City of San Antonio, et. al. Plaintiffs are land owners who own property in an area that had been part of a limited purpose annexation by the City. The area was deannexed in March 2008 and City South Management Authority ("CSMA") took over responsibility for planning and zoning pursuant to State statute. Plaintiffs filed suit in Federal Court challenging both the City and CSMA's authority to enact and enforce zoning and planning regulations, alleging that these restrictions have devalued their property by limiting their ability to develop it. Under the City's Indemnification Ordinance, the City has provided a defense for CSMA. On cross-motions for Summary Judgment, the Court dismissed most of Plaintiffs' claims, but retained their claim of violations of Texas Government Code Chapter 2007. Plaintiffs seek damages in excess of $4,000.

Galvan, et al. v. City of San Antonio, et al. Plaintiffs filed suit for wrongful death under State and Federal laws related to the death of Sergio Galvan. During the course of an arrest, decedent became violent and, in response, the defendant officers used taser guns to subdue him. Decedent became unresponsive and was later pronounced dead. The trial court granted summary judgment in favor of all defendants in November 2008. Plaintiffs have appealed the judgment with respect to the defendant officers to the Fifth Circuit Court of Appeals. The Fifth Circuit affirmed the judgment in favor of the Defendants in June 2010. During the pendency of that suit, a second lawsuit was filed by different family members of the decedent, in State District Court. That matter was removed to Federal Court. The Court requested briefing on why the second suit should not be dismissed in light of the Fifth Circuit opinion in the first case. The Court's decision is pending. If the matter is not dismissed and plaintiffs are successful, damages could be in excess of $250.

Smith, et al. v. Ybarra, et al. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already dead. Damages are capped at $250.

Wissmann v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a SAPD cruiser and filed suit for injuries allegedly sustained in the accident. This case is covered by the Texas Tort Claims Act. If liability is determined, damages are capped at $250. This case is set for trial on May 2, 2011.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for Breach of Contract and Violations of the Prompt Payment Act. Damages could exceed $250. The City filed a plea to the jurisdiction, which was denied by the Court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's Plea to the Jurisdiction. The City is currently assessing whether to continue the appeal process or return to the trial court for further litigation on this matter.

Vasquez, et al. v. City of San Antonio Police Department. Plaintiffs were involved in a motor vehicle accident while pursued by SAPD officers. Plaintiff filed suit on her behalf and on behalf of her minor child for injuries allegedly sustained in the accident. This case is covered by the Texas Torts Claims Act. If liability is determined, damages are capped at $250. This case is set for trial on July 11, 2011.

David Ash v. City of San Antonio. Plaintiff struck a City vehicle from behind. Plaintiff claims he could not see that the City vehicle was stopping because of the dust cloud kicked up by the truck. This case was tried to a jury in September 2009 and Plaintiff was awarded damages of approximately $190. The Fourth Court of Appeals issued its opinion on February 9, 2011. The Court found that some of the damages awarded by the jury were not supported by the evidence. They encouraged the parties to agree to a remittitur of the award to an amount of approximately $94 or the matter will be returned to the trial court for a new trial. The parties are still assessing their options.

Valemas, Inc. v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Brackenridge Park Rehabilitation Project. The City refused to pay the Plaintiff the balance of the contract due to delays in completion. Plaintiff contends that the delays were due to actions of the City and filed suit to recover the balance of the contract. Damages could be in excess of $250. This matter is to be set for mediation in April, 2011 and set for trial in October, 2011.

L. Payne Constructors v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Clark Avenue/Fair Avenue project. Plaintiff filed suit for breach of contract alleging the City caused delays and increased costs through change orders. Plaintiffs have sued for damages in excess of $500. This matter has been recently filed and discovery is just beginning.

Sayani v City of San Antonio and City South Management Authority. Plaintiff contended that City and City South Management Authority effected a taking of his property by allegedly improperly imposing zoning restrictions on his property without performing a takings analysis. Plaintiff sought damages in loss of value to his property in an amount of approximately $1,500. This matter was settled in October, 2010 for $500 payable to the Plaintiff by the City.

Rosemary Flammia v City of San Antonio. Plaintiff initially filed an Equal Employment Opportunity Commission (EEOC) complaint alleging discrimination based on gender and race based on not being appointed as Assistant Chief. She amended her complaint on several occasions and also asserted claims of retaliation based on her prior EEOC filings. This matter settled in October, 2010 for $249.

(The remainder of this page left blank intentionally)

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

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. As of September 30, 2010, the City has no arbitrage liability for its governmental or proprietary funds.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. The Airport System's revenue is net Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. Total rental revenue on operating leases for the fiscal year-ended September 30, 2010 was $28,738. As of September 30, 2010, the leases provide for the following future minimum rentals:

Lease Revenues				
	Governmental Activities	Airport System	Parking System	Total
Fiscal year ending September 30:				
2011	$ 7,364	$ 16,089	$ 100	$ 23,553
2012	6,217	15,346	100	21,663
2013	5,744	11,804	100	17,648
2014	5,200	4,022	100	9,322
2015	4,833	3,810	100	8,743
2016-2020	9,152	15,046	500	24,698
2021-2025	4,874	9,066	500	14,440
2026-2030	2,517	5,393	100	8,010
2031-2035	693	979		1,672
2036-After	734			734
Future Minimum Lease Rentals	$ 47,328	$ 81,555	$ 1,600	$ 130,483

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Solid Waste Management Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year-ended September 30, 2010 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,057. This represents a decrease of $296 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

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

Brooks City-Base – Electric and Gas Utilities

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

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2010 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,100 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

CPS Energy

Litigation

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

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases

Capital Leases - CPS Energy has one capital lease arrangement for the use of computer servers, associated software and maintenance of the hardware and software. The four year lease began in fiscal year 2007 and will end in fiscal year 2011. As of January 31, 2010, there were no future lease payments associated with this capital lease. The value of the assets acquired through capital leases at January 31, 2010, was as follows:

	January 31, 2010
Equipment	$ 2,723
Accumulated Depreciation	(2,159)
Net book value	$ 564

Operating Leases – CPS Energy has entered into operating lease agreements to secure the usage of natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains a lease payment escalation clause whereby the minimum monthly lease payments will increase by $3 per month beginning in the sixth year of the lease. Additionally, the building lease contains an option to purchase the facility before the end of the third year of the lease. The leases for the parking lot space contain a provision for a slight escalation in the monthly payment amount in the second and third years of the lease.

As of January 31, 2010, the future minimum lease payments for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Payments
2011	$ 5,192
2012	2,329
2013	499
2014	365
Total future minimum lease payments	$ 8,385

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $6,300 in fiscal year 2010. There were no contingent lease or sublease payments in fiscal year 2010.

CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication towers. Additionally, CPS Energy has three operating leases for the use of land that CPS Energy owns. The majority of the operating leases pertaining to the use of CPS Energy's communication towers contain a provision for contingent lease receipts that will equal the lesser of a 15.0% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period. Furthermore, the three land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

As of January 31, 2010, the future minimum lease receipts for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Receipts
2011	$ 2,188
2012	2,180
2013	2,101
2014	1,566
2015	590
Later years	2,407
Total future minimum lease payments	$ 11,032

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,600 in fiscal year 2010. Contingent lease receipts amounted to $553 for fiscal year 2010. There were no sublease receipts in fiscal year 2010.

Lease/Leaseback - In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 coal-fired electric generating unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

CPS Energy retains fee simple title to, and operating control of, the facility and retains all revenues generated from sales of electricity produced from the facility. CPS Energy received the appraised fair value of the unit, $725,000, which is being amortized over 381 months, or approximately 32 years. The transaction expenses and leaseback costs of $628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months, or approximately 32 years.

CPS Energy has the option to cancel the leaseback after it expires by making a payment to Exelon's affiliate. CPS Energy entered into a collateralization payment-undertaking agreement that will generate amounts sufficient to fund the cancellation option.

CPS Energy's net benefits associated with the transaction were approximately $88,000. The City was paid $12,300 in accordance with the provisions of the New Series Bond Ordinance that permit 14.0% of this net benefit to be distributed. The distribution was recorded as a prepayment in 2001 and is being amortized over 381 months, or approximately 32 years. As a result, net proceeds from the transaction of approximately $75,700 are being reported over the 32-year leaseback term. In fiscal year 2010, the net amount recorded as income by CPS Energy was $2,800.

Other

Purchase and construction commitments amounted to approximately $2,400,000 at January 31, 2010. This amount includes provisions for natural gas purchases expected through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $2,800,000. This amount includes provisions for wind power through May 2030, solar power through December 2040, landfill power through December 2020, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

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

In October 2008, CPS Energy agreed to an amendment with Calaveras Power Partners, L.P. under which CPS Energy is obligated to make a payment of $10,000 if the milestones and progress are achieved per the amendment. CPS Energy has paid $7,400 of this amount to date.

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation (PFC), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned $2,400,000 purchase and construction commitments amount.

In December 2007, CPS Energy and Exelon Generation Company LLC (Exelon) signed an agreement granting CPS Energy an option to participate in a possible joint investment in a nuclear-powered electric generation facility in Southeast Texas (the Exelon Project). Preliminary plans indicate that the Exelon Project would be located in Victoria County, Texas, and would involve the development of two Economic Simplified Boiling Water Reactors (ESBWR), nominally rated at 1,520 megawatts each. Under this agreement, CPS Energy has the option to acquire between 25.0% and a 40.0% ownership in the Exelon Project. Exelon submitted the COLA for the Exelon Project to the NRC on September 3, 2008. On October 30, 2008, the NRC accepted the application for a detailed review. Exelon announced on November 24, 2008, that they intended to select an alternate technology, other than the ESBWR, for the Exelon Project. Subsequently on December 18, 2008, the NRC placed the review of Exelon's COLA on hold. On March 27, 2009, Exelon announced that it had selected Hitachi's Advanced Boiling Water Reactor design for the Exelon Project, and that it planned to revise the COLA and its DOE loan guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. Exelon has delayed development of the Exelon Project but will continue to pursue an Early Site Permit for the Victoria County location. The parties are in discussions to execute a new agreement, with a possible change in ownership percentage. Exelon has not notified CPS Energy of any intention to terminate the agreement or to abandon the project.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2010 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,100 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Save for Tomorrow Energy Program ("STEP")

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

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

San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and potential litigation, which arise in the ordinary course of its operations. Management, in consultation with legal counsel, makes an estimate of potential costs that are expected to be paid in the future as a result of known claims and potential litigation and records this estimate as a contingent liability. The amount of such contingent liability totaled $5,504 at December 31, 2009. While the exact amount of any potential liability that may arise from these claims and potential litigation is indeterminable, management believes that the amounts recorded are a reasonable estimate.

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

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

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

SAWS has expensed $39,300 in study period costs through December 31, 2009. Under the terms of the 2002 Definitive Agreement with LCRA, SAWS is entitled to receive a reimbursement from LCRA of approximately one-half of those study period costs in the event the agreement is terminated by SAWS.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In December 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA. In September 2009, LCRA filed a plea asserting full or partial governmental immunity from suit.

Other

As of December 31, 2009, SAWS has entered into various water leases to obtain rights to pump water from the Edwards Aquifer. The term of these agreements vary, with some expiring as early as 2010 and others continuing until 2019. Some of the leases include price escalations and the average annual cost per acre foot ranges from $134 to $165 (these figures not in thousands). The future commitments under these leases are as follows:

	2010	2011	2012	2013	2014	Thereafter
Lease obligations	$ 5,551	$ 5,904	$ 5,138	$ 2,760	$ 1,860	$ 6,399
Lease obligations (acre feet)	42	39	33	19	13	41

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

	2010	2011	2012	2013	2014	Thereafter
Firm purchased water obligations	$ 4,351	$ 4,246	$ 4,318	$ 4,390	$ 4,462	$ 122,844
Firm purchased water obligations (acre feet)	6	6	6	6	6	101
Variable purchased water obligations	$ 3,743	$ 3,217	$ 3,165	$ 2,789	$ 2,469	$ 66,021
Variable purchased water obligations (acre feet)	5	4	4	3	3	66

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with Guadalupe Blanco River Authority (GBRA) and two wholesale agreements for the supply of raw water from the Trinity Aquifer. All water provided under these contracts is subject to availability. Under the contract with GBRA, SAWS will receive between 4,000 and 11,000 acre feet of water annually during the years 2010-2037 at prices ranging from $890 to approximately $1,523 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms (figures in this paragraph are not in thousands).

In 2000, SAWS entered into a wholesale contract with the Massah Development Corporation to deliver raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County. SAWS determined the sustainable yield of the project to be 4,685 acre feet. Under this contract, SAWS is required to take or pay for 50.0% of the determined sustainable yield of the project, or 2,343 acre feet annually. In 2010, SAWS and Massah Development Corporation negotiated a new Water Supply Agreement for a term of 15 years beginning July 1, 2010. The minimum Take of Pay for the contract is 100 acre feet per month or 1,200 acre feet per year. The negotiated price is $550 per acre foot with an escalator based on the Producers Price Index. SAWS has an option at the end of the primary term to extend the contract for 10 years. (Figures in this paragraph are not in thousands).

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

In 2006, SAWS renegotiated the terms of a contract with Sneckner Partners, Ltd. to supply raw water from the Trinity Aquifer. Under this contract, SAWS is required to take or pay for 1,500 acre feet annually at a minimum annual cost of $225 per acre foot through 2020 (these figures not in thousands). SAWS has an option to extend the contract through 2026, if it desires. As part of this contract, SAWS agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than $5,000.

SAWS has entered into various agreements to pump water from the Carrizo aquifers. SAWS makes minimum water payments under the terms of these agreements until such time as SAWS' pending permit application to pump water from the Carrizo Aquifer has been approved and the necessary infrastructure to produce and transport the water has been completed. At December 31, 2009, SAWS is committed to make payments under only three of these agreements. Minimum water payments are required under these three agreements through 2029 even if no water is produced. The remaining agreements are currently subject to cancellation by SAWS. The table below summarizes both the required minimum water payments under the three agreements that cannot be cancelled as well as the projected additional payments under all agreements assuming that none are cancelled and water production begins in 2013.

	2010	2011	2012	2013	2014	Thereafter
Required minimum water payments	$ 178	$ 183	$ 198	$ 204	$ 210	$ 6,170
Projected additional payments	$ 265	$ 402	$ 417	$ 746	$ 768	$ 14,372
Produced water (acre feet)				12	12	175

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $288,000 as of December 31, 2009. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Pollution Remediation Obligation

Primary Government (City)

The City implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in fiscal year 2009.

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

	Balance at 10/1/2009	Additions	Deletions	Balance at 9/30/2010
Governmental Activities:				
Liabilities	$ 904	$ 1,529	$ (608)	$ 1,825
Construction in Progress	788	1,038	(621)	1,205
Business-Type Activities:				
Liabilities	$ 700	$ -	$ -	$ 700

Amounts are expressed in thousands

Note 12 Pollution Remediation Obligation (Continued)

Primary Government (City) (Continued)

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's Capital Improvement Management Services and Parks Departments for the construction of streets and drainage and parks, respectively. Any net changes in the Governmental Activities pollution liability that was not capitalized under Construction in Progress was expensed under the City's public works activities.

The Business-Type Activities' liability was a result of cost estimates to clean existing pollution found on land acquired by the Airport System for the construction of airport structures. As the City acquired this property in the early 1940s, the liability did not meet the criteria to be capitalized, and as such was expensed in fiscal year 2009. There have been no changes regarding this obligation in fiscal year 2010.

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

CPS Energy

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

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

The pollution remediation liability was $888 as of January 31, 2010. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by CPS Energy's environmental staff and consultants. FY 2009 beginning balances were not restated as a result of the implementation of GASB Statement No. 49 due to immateriality.

San Antonio Water System (SAWS)

SAWS had no material pollution remediation liabilities at December 31, 2009.

Note 13 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2010, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides general liability, law enforcement legal liability, public official's liability, employee benefits liability, and workers' compensation excess liability coverage. The City utilizes a third-party administrator to adjust its claims. Great American Insurance Company provides coverage for the City's real property and contents.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Workers' Compensation

As of September 30, 2010, the City maintains excess workers' compensation insurance coverage through Star Insurance Company. The policy provides coverage for claims by or on behalf of injured workers where the total liability exceeds the City's self-insured retention of $500. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund, Enterprise Funds and Convention Visitors Facility Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.

Employee Health Benefits

The City offers employees and their eligible dependents a comprehensive employee benefits program including medical, dental, vision and basic and supplemental life insurance. Employees may also participate in healthcare or dependent care spending accounts through our Section 125 Cafeteria Plan. The City's health and dental programs are self-funded. Obligations for benefits are accrued in the City's Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Retiree Health Benefits

The City offers medical coverage for its retirees and their dependents. The City offers both self insured and fully insured plans to participating retirees who retire from the TMRS Pension Plan immediately following retirement from the City. Self Funded obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrued OPEB liabilities based on an actuarial assessment of historical self funded claims data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Unemployment Compensation Program

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

Extended Sick Leave Program

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

Employee Wellness Program

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

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability

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

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year-ended September 30, 2010:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2009	$ 19,435	$ (938)	$ 5,286	$ (5,286)	$ 18,497
Fiscal Year 2010	18,497	4,638	4,031	(4,031)	23,135
Employee Health Benefits: [1]					
Fiscal Year 2009	$ 9,611	$ (957)	$ 75,077	$ (75,077)	$ 8,654
Fiscal Year 2010	8,654	(289)	85,058	(85,058)	8,365
Workers' Compensation: [2]					
Fiscal Year 2009	$ 24,547	$ 1,670	$ 11,778	$ (11,778)	$ 26,217
Fiscal Year 2010	26,217	1,703	12,270	(12,270)	27,920

[1] FY10 fund financial claims expense reflects an additional $548 in Unemployment Claims that are not shown above.

[2] The Workers' Compensation Liability Balance of $27,920 is comprised of $25,594 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 recorded in the enterprise 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 $4,700,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 per occurrence with a secondary deductible of $1,000 per occurrence applicable to non-power-plant and non-substation property locations. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $2,000;
- $25,000 of fiduciary liability coverage;
- $100,000 of employment practice liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel, event insurance.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35,000 of excess workers' compensation coverage over a retention amount of $2,000 is maintained. No claims settlements exceeded insurance coverage in the last three fiscal years.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed during the third quarter of fiscal year 2010.

In the table below, the remaining balance under the property reserves column at January 31, 2010, relates to estimated obligations for the clean up, closure, and post-closure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations.

Under CPS Energy's reserve program, all claims are recorded against the reserve.

Schedule of Changes in Claims Liability

Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Reserves:				
Fiscal Year 2009	$ 3,671	$ (566)	$ -	$ 3,105
Fiscal Year 2010	3,105	799		3,904
Employee and Public Liability Claims:				
Fiscal Year 2009	$ 8,231	$ 6,658	$ (4,586)	$ 10,303
Fiscal Year 2010	10,303	4,314	(4,254)	10,363

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

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. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

In fiscal year 2010, CPS Energy implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On January 20, 2009, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Balance Sheet at fair value. 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.

All potential hedging derivative instruments were evaluated for effectiveness at January 31, 2010, and were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The instruments were categorized into two broad groups for purposes of this testing. In one category, hedges utilize only NYMEX natural gas futures and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association (WAHA) or the Houston Ship Channel (HSC). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established at the critical term to be evaluated, with 0.8944 established as the minimum standard tolerated. The testing, based on two different location hubs (WAHA and HSC), demonstrated a substantial offset in the fair values, as evidenced by their calculated R values, 0.9664 and 0.9961, respectively, indicating that the changes in cash flows substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

In the second category, hedges utilize both NYMEX natural gas futures and their associated location basis. The effectiveness of these hedges was tested using a quantitative method similar to the synthetic instrument method prescribed by GASB Statement No. 53, with the combination of the hedging instrument and the hedged expected transaction substantively resulting in a hedged fixed price for natural gas. The method requires that the hedged fixed price fall within a range of 90.0% to 111.0% of the confirmed price. Effectiveness testing demonstrated that the hedged price was fixed within the tolerable range, thus demonstrating that the variable cash flows of the hedged instrument substantially offset the variable cash flows of the hedgeable item to create a synthetic price that is effectively fixed. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

As of January 31, 2010, the total fair value of outstanding hedge instruments was a net liability of $5,520. Fuel hedging instruments with a fair value of $(5,520) are reported as a current liability and classified on the Balance Sheet as a component of accounts payable and accrued liabilities. Long-term fuel hedging instruments with a fair value of $6 are reported as a noncurrent asset and classified as a component of noncurrent and other assets. Additionally, long-term fuel hedges with a fair value of $(31) are reported as a noncurrent liability and classified as a component of other liabilities and deferred credits.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred (inflows) outflows of resources on the Balance Sheet until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The current deferred (inflows) outflows of resources related to fuel hedges totaled $6,400 at January 31, 2010. These amounts are reported on the Balance Sheet as current assets and are classified as a component of prepayments, deferred and other current assets. The noncurrent deferred (inflows) outflows of resources totaled $376 at January 31, 2010. These amounts are reported on the Balance Sheet as noncurrent assets and are classified as a component of other deferred costs.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

In fiscal year 2010, some hedging derivative instruments were terminated early, causing them to be ineffective under GASB Statement No. 53. Accordingly, losses from the closed positions were recorded as a decrease in investment income of $2,100.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2010

Type of Transaction	Duration	Volumes in MMBTU	Fair Value	Changes in Fair Value
Long Call	Mar 2010 - Jul 2011	4,750,000	$ 1,308	$ (1,388)
Long Put	Mar 2010 - Jul 2010	980,000	66	(58)
Short Put	Mar 2010 - Jul 2011	4,320,000	(1,468)	61
Long NG Futures	Mar 2010 - Dec 2010	5,510,000	(5,960)	(1,881)
Long Basis Swap	Feb 2010 - Dec 2010	3,475,000	534	527
			$ (5,520)	$ (2,739)

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

Preassigned Congestion Rights - In the normal course of business, CPS Energy acquires Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) as a hedge against unexpected congestion costs. The TCRs are purchased at auction, annually and monthly, at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15.0% of the cost of TCRs. This low initial investment is an indication of the leverage characteristic of derivatives. Additionally, PCRs exhibit the other two characteristics of derivatives as defined by GASB Statement No. 53 (settlement factors and net settlement). Therefore, PCRs are reported at fair value on the Balance Sheet in accordance with GASB Statement No. 53, with fair value determined by the cost of annual TCRs purchased at the same time.

The effectiveness of these hedges is satisfied utilizing the "consistent critical terms method" prescribed under GASB Statement No. 53, whereby the forward contract is for the same quantity of the hedgeable item (one Megawatt per PCR) and covers the same time (15-minute intervals over the course of a month) and location (a specified directional constraint). When combined with the hedgeable item (congestion cost), the contract value is zero since the reference rate of the contract is consistent with the rate of the hedgeable item.

PCRs had a market value of $2,554 at January 31, 2010. These hedging derivative instruments were reported as current assets and classified as a component of prepayments, deferred and other current assets. The deferred (inflows) outflows of resources related to PCRs was $(2,200) at January 31, 2010. These balances are reported on the Balance Sheet as noncurrent liabilities and are classified as a component of accounts payable and accrued liabilities.

Preassigned Congestion Rights as of January 31, 2010

Purchase Date	Direction	MWhs	Fair Value	Cost
December 11, 2009	North to West	8,760	$ 52	$ 8
December 11, 2009	North to South	8,760	2,502	375
			$ 2,554	$ 383

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

Credit Risk - The fuel hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect the brokerages to fail in meeting their obligations given their high credit rating and the strict and deep credit requirements upheld by NYMEX, of which these brokerage firms are members.

Termination Risk - All of CPS Energy's fuel hedges are exchange-traded instruments; therefore, the risk of termination is greatly reduced by the strict rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

Basis Risk - CPS Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a pricing point (HSC or WAHA) different than that at which the contracts are expected to settle (Henry Hub). For January 2010, the HSC price was $5.83 per MMBtu, the WAHA price was $5.71 per MMBtu, and the Henry Hub price was $5.81 per MMBtu.

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $500 of each workers' compensation, general liability, automobile liability and public official's liability claim and for the first $250 for each pollution remediation, legal liability and commercial property claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2009, there were no reductions in insurance coverage from the previous year and there were no new claims incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year. SAWS has recorded accrued claims liability in the amount of $5,504 as of December 31, 2009, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last two fiscal years were as follows:

San Antonio Water System
Schedule of Changes in Claims Liability

Year Ended	Balance at Beginning of Fiscal Year	Claims and Adjustments	Claims Payments	Balance at End of Fiscal Year	Estimated Due Within One Year
Dec. 31, 2009	$ 5,401	$ 2,050	$ (1,947)	$ 5,504	$ 5,504
Dec. 31, 2008	$ 5,312	$ 2,276	$ (2,187)	$ 5,401	$ 5,401

Even though the effective date of implementing GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, allowed SAWS to adopt the Statement in fiscal year 2010, as SAWS is a component unit of the City, it was required to implement GASB Statement No. 53 in fiscal year 2009 for inclusion in the City's fiscal year 2010 CAFR. SAWS did not implement GASB Statement No. 53 in fiscal year 2009. The swaps noted below were prepared in compliance with pre-GASB Statement No. 53 requirements.

Note 13 Risk Financing (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 SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds. At the time of issuance, the principal and interest payments on the Series 2003 Bonds were insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation (MBIA). In August 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the outstanding principal amount of $111,615 of the Series 2003 Bonds due to continued unfavorable market conditions relating to the ratings downgrade of MBIA, resulting in significantly higher variable rates of interest being paid on the Series 2003 Bonds. This partial redemption was effected with commercial paper notes, leaving $1,000 of the Series 2003 Bonds outstanding. In May 2009, SAWS redeemed $20 of the Series 2003 Bonds and $2,465 of commercial paper notes according to the amortization schedule of the Series 2003 Bonds and the swap. In June 2009, SAWS issued a Notice of Partial Redemption for the remaining $980 of Series 2003 Bonds outstanding with commercial paper notes. At December 31, 2009, the interest rate swap serves to hedge $109,130 of commercial paper notes. Upon the maturity of the commercial paper notes, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap. There was no economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper are expected to closely match the debt service requirements of the refunded debt.

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

In March 2008, JP Morgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. The transaction closed on May 30, 2008. JP Morgan Chase has guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JP Morgan Chase & Co. , and MBIA to provide for JP Morgan Chase Bank N.A. to become the swap counterparty and allow for the remaining $980 of outstanding Series 2003 Bonds to be redeemed with commercial paper notes, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.2%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value - The swap had a negative fair value as of December 31, 2009 of approximately $10,600. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of December 31, 2009, 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, JP Morgan Chase Bank, N.A. was rated "AA-" by Fitch Ratings and Standard & Poor's and "Aa1" by Moody's Investors Service as of December 31, 2009. The amended swap agreement contains a credit support annex which will become effective upon the release of MBIA from the swap insurance policy. Collateralization would be required by either party should the fair market value of the swap reach applicable thresholds as stated in the amended swap agreement.

Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its hedged commercial paper notes do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged commercial paper notes associated with the redemption of the variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

Termination Risk - SAWS may terminate the swap at any time for any reason. JP Morgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured as provided for in the swap amendment and JP Morgan Chase cannot terminate as long as the insurer does not fail to perform. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Market-access Risk – SAWS is subject to market-access risk as $109,130 of variable-rate debt hedged by the swap is outstanding commercial paper notes with current maturities less than 87 days. As previously noted, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap.

Swap Payments and Associated Debt - As of December 31, 2009, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper will be repaid in accordance with the amortization schedule of the swap.

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

Year	Principal	Interest Paid on Debt	Interest Rate Swap, Net	Total
2010	$ 2,600	$ 297	$ 4,221	$ 7,118
2011	2,720	289	4,115	7,124
2012	2,840	282	4,005	7,127
2013	2,970	274	3,891	7,135
2014	3,105	265	3,770	7,140
2015-2019	17,780	1,185	16,845	35,810
2020-2024	22,220	908	12,902	36,030
2025-2029	27,770	561	7,974	36,305
2030-2033	27,125	142	2,014	29,281
Total	$ 109,130	$ 4,203	$ 59,737	$ 173,070

(The remainder of this page left blank intentionally)

Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2010:

Summary Table of Interfund Transfers
Year-Ended September 30, 2010

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 193	$ -
Categorical Grant-In Aid	22	6,649
Internal Service Funds		7,650
Nonmajor Governmental Funds	35,072	39,376
Nonmajor Enterprise Funds	1,294	580
Total General Fund	36,581	54,255
Debt Service Fund:		
Nonmajor Governmental Funds	57,122	13
Total Debt Service Fund	57,122	13
Categorical Grant-In Aid:		
General Fund	6,649	22
Nonmajor Governmental Funds	2,276	4,273
Total Categorical Grant-In Aid	8,925	4,295
2007 General Obligation Bonds:		
Nonmajor Governmental Funds		59,268
Total 2007 General Obligation Bonds		59,268
Airport System Fund:		
General Fund		193
Internal Service Funds		169
Nonmajor Governmental Funds		32
Total Airport System Fund		394
Internal Service Funds:		
General Fund	7,650	
Airport System Fund	169	
Internal Service Funds	535	535
Nonmajor Governmental Funds	971	3,490
Nonmajor Enterprise Funds	572	
Total Internal Service Funds	9,897	4,025
Nonmajor Governmental Funds:		
General Fund	39,376	35,072
Debt Service Fund	13	57,122
Categorical Grant-In Aid	4,273	2,276
2007 General Obligation Bonds	59,268	
Airport System Fund	32	
Internal Service Funds	3,490	971
Nonmajor Governmental Funds	151,328	151,328
Nonmajor Enterprise Funds	1,100	
Total Nonmajor Governmental Funds	258,880	246,769
Nonmajor Enterprise Funds:		
General Fund	580	1,294
Internal Service Funds		572
Nonmajor Governmental Funds		1,100
Total Nonmajor Enterprise Funds	580	2,966
Total	$ 371,985	$ 371,985

Amounts are expressed in thousands

Note 14 Interfund Transfers (Continued)

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

Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2010, deficit fund balances are reported in the Categorical Grant-in-Aid Fund and Community Development Program Fund in the amounts of $4,397 and $1,105. The deficit fund balance in Categorical Grant-in-Aid is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has two years remaining to fund. The deficit balance in the Community Development Program Fund is a result of utilizing grant monies for activities that were determined not to benefit the mission/purpose of the grant. The City has created an obligation to reimburse the grantor and will incorporate this deficit into the annual budget process to fund.

Capital Projects Funds

As of September 30, 2010, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, and Improvement Projects in the amounts of $24,550, $7,062, and $6,370, respectively. The deficit balances in these work effort funds are a result of a one year reimbursement clause allowing departments to spend up to one year in advance of bonds being sold and proceeds transferred in to fund the work efforts. Another contribution to this deficit is the timing of invoices billed to third party contributors. The deficits will be addressed by identifying the appropriate funding source and transferring funds from a bond authorization (when sold), operating funds, grants, and/or by billing and collecting contributions from third party contributors.

Internal Service Funds

As of September 30, 2010, the Workers Compensation Program had deficit net assets of $1,111. The deficit balance was a result of higher than expected claims activity and associated actuarially determined accruals that were more than the amount considered in the annual Workers Compensation assessment. The City will fund the deficit by revising the future assessment charged to various City funds over the course of the next three years.

Note 16 Other Disclosures

Donor Restricted Endowment

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

The San Jose Burial Park Fund generated $10 in investment earnings 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 principal is required to be retained in perpetuity.

Note 16 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The Carver Cultural Center Endowment Fund generated $2 in investment earnings. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Prudent Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $106 in investment earnings. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in investment earnings. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

The Boza Becica Endowment Fund generated $2 in investment earnings. These earnings will be used for the acquisition of books and materials for the San Antonio Public Library in accordance with the terms and conditions of the Last Will and Testament of Boza Becica. The principal is required to be retained in perpetuity.

Note 17 Prior Period Restatement

Discretely Presented Component Units

During fiscal year 2010, San Antonio Development Agency's management performed a more in-depth analysis of the existing property (land and building inventory records). Based on additional information discovered by management, it was determined various properties that are actually owned by the City or others were recorded by SADA in error. Thus, an adjustment for $496 has been made to restate (decrease) beginning net assets and land and building inventory as of September 30, 2009.

In addition, San Antonio Local Development Company Inc. dba South Texas Business Fund dissolved its operations effective August 2010. As the entity did not exist at the City's fiscal year-end, it no longer qualified as a component unit and its beginning net assets of $4,822 were removed from the City's financial statements.

Blended Component Units

The City was unable to obtain fiscal year 2010 financial statements for four of its component units that were presented in the prior year. The City feels the removal of these component units would not materially misstate the CAFR. The City reduced its beginning fund balances as noted below:

	Fund Balance
Nonmajor Governmental Funds - Blended Component Units:	
San Antonio Health Facilities Development Corportation	$ 7
San Antonio Industrial Development Authority	15
San Antonio Education Facilities Corporation	43
Westside Development Corporation	26
	$ 91

Note 18 Subsequent Events

Primary Government (City)

Governmental and Business-Type Activities Long-Term Debt

In the May 7, 2005 Election, the voters authorized the imposition of a sales and use tax at the rate of one-eighth of one percent (1/8 of 1.0%) for the purpose of financing an Edwards Aquifer Protection Venue Project and a Parks Development and Expansion Venue Project. That one-eighth of one percent (1/8 of 1.0%) sales and use tax is expected to be fully collected by the end of August 2011.

On November 2, 2010, the voters of the City elected to establish the Edwards Aquifer Protection Venue Project and the Parks Development and Expansion Venue Project, and extend the sales and use tax rate of one-eighth of one percent (1/8 of 1.0%) for the purpose of financing the Venue Projects, in an amount not to exceed $90,000 for the Edwards Aquifer Protection Venue Project and $45,000 for the Parks Development and Expansion Venue Project. The one-eighth of one percent (1/8 of 1.0%) sales and use tax approved by the voters in this most recent election will take effect immediately after the collection authorized in the 2005 Election.

On December 21, 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A, $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B, and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 for the purpose of funding the Capital Improvement Plan for the Airport System as well as refunding certain outstanding Airport debt.

The Tax-Exempt GAR Bonds and the PFC Bonds refunded $34,500 of Tax Notes, Series 2010 which were utilized as interim financing to allow the Airport expansion program as well as other planned Airport capital improvements to move forward without delay prior to this issuance. Additionally, certain Airport bonds are being refunded to effectuate a restructuring of the Airport's existing debt service.

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2010 completed and issued in January 2011. The results of the study include a decrease in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $275,696 as of October 1, 2009 to $231,075 and a decrease in the years to amortize the UAAL from 10.4 years to 9.1 years as a level percent of payroll.

As is the case with most public pension plans, the Pension Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Fund's investment returns as of September 30, 2010 have been smoothed which results in the deferral of $328,575 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.8% or other actuarial gains.

Contribution rates for the members of the Pension Plan and the City are established under Texas state statutes and do not change with the results of the annual actuarial valuations. Staff of the Pension Fund and the City will continue to monitor the situation closely. Please see Note 8, Pension and Retirement Plans for more information on the Fire and Police Pension Plan.

(The remainder of this page left blank intentionally)

Note 18 Subsequent Events (Continued)

CPS Energy

Rates are set by the CPS Energy Board of Trustees and approved by City Council. On February 18, 2010, the City Council unanimously approved a 7.5% increase in CPS Energy's electric base rates and an 8.5% increase in its natural gas base rates, which became effective March 1, 2010.

Long-Term Debt

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

On November 4, 2010, CPS Energy issued $300,000 of Junior Lien Taxable Series 2010A Revenue Direct Subsidy BABs and $200,000 of Junior Lien Taxable Series 2010B Revenue Refunding Direct Subsidy BABs. The true interest cost for the 2010A issue, which has a term bond maturing in 2041, was 3.8%. Total bond proceeds are being used to fund general system improvements. The true interest cost for the 2010B issue, which has a term bond maturing in 2037, was 4.1%. On November 5, 2010, proceeds from the 2010B issue were used to refund $200,000 of outstanding TECP obligations.

Flexible Rate Revolving Note

In FY 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the Flexible Rate Revolving Note ("FRRN") Private Placement Program. This ordinance provides for funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $100,000. Eligible projects include the acquisition or construction of improvements, additions, or extensions for the Systems, including capital assets and facilities incident and related to the operation, maintenance, and administration of fuel acquisition and development and facilities for the transportation thereof; capital improvements to the Systems; and refinancing or refunding any outstanding obligations secured by the net revenues of the Systems; or with respect to the payment of any obligation of the Systems pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.

On May 10, 2010, CPS Energy drew $25,200 on the taxable Flexible Rate Revolving Note, Series A. On May 11, 2010, the proceeds from the note, along with cash, were used to defease $25,700 in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 3 and 4. The outstanding FRRN balance at October 31, 2010, was $25,200.

The FRRN has been classified as short-term in accordance with the financing terms under the Note Purchase Agreements, which support the Program Notes. Under the terms of the two current Note Purchase Agreements, $75,000 of the credit facility is taxable and secured by collateral pledged in the form of investments. The remaining $25,000 of the credit facility is tax-exempt and secured by an inferior lien obligation with a pledge of net revenues. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of New Series Bonds, Junior Lien Obligations and TECP. Both the current taxable and tax-exempt Note Purchase Agreements expire on December 31, 2011.

(The remainder of this page left blank intentionally)

Note 18 Subsequent Events (Continued)

San Antonio Water System (SAWS)

Long-Term Debt

On March 4, 2010, SAWS issued $59,145 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010. The proceeds from the sale of the bonds were used to (i) refund $38,130 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 (the 1999 Junior Lien Bonds), (ii) refund $25,070 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 1999-A (the 1999-A Junior Lien Bonds), and (iii) pay the cost of issuance. The refunding of the 1999 Junior Lien Bonds and the 1999-A Junior Lien Bonds resulted in a reduction of SAWS' total debt service payments over the next ten years of approximately $4,900 and SAWS obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $4,300. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on the pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 1, 2010, the District Judge in the 200th Judicial District Court of Travis County, Texas granted LCRA's plea asserting full or partial governmental immunity from suit and dismissed SAWS' law suit discussed in Note 11. On February 17, 2010, SAWS' filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with the Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

On November 23, 2010, SAWS issued $110,000 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the "Series 2010B Bonds"). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2010B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"). In connection with the issuance of the Series 2010B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the "Treasury") a subsidy payment equal to 35.0% of the taxable interest it pays on the Series 2010B Bonds (the "Tax Credit"). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2010B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2010B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2010B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2010B Bonds. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

On December 14, 2010, SAWS issued $17,930 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund $3,400 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

City of San Antonio, Texas

Required Supplementary Information Other Than MD&A
(Unaudited)

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (Inflows):				
Taxes	$ 473,681	$ 472,161	$ 479,775	$ 7,614
Licenses and Permits	7,036	6,939	7,769	830
Intergovernmental	6,543	6,212	7,768	1,556
Revenues from Utilities	261,208	282,485	292,726	10,241
Charges for Services	43,031	44,333	45,850	1,517
Fines and Forfeits	14,157	14,139	11,506	(2,633)
Investment Earnings	2,174	1,034	1,832	798
Miscellaneous	8,364	9,555	10,267	712
Transfers from Other Funds	27,955	36,581	36,581	
Amounts Available for Appropriation	844,149	873,439	894,074	20,635
Charges to Appropriations (Outflows):				
General Government	97,975	86,977	82,942	4,035
Public Safety	506,841	507,106	505,045	2,061
Public Works	41,933	45,341	44,237	1,104
Health Services	71,862	74,782	73,898	884
Sanitation	3,163	3,385	3,212	173
Culture and Recreation	75,447	77,655	76,983	672
Welfare	39,177	42,627	41,142	1,485
Economic Development and Opportunity	2,459	2,838	2,907	(69)
Transfers to Other Funds	48,199	66,495	66,495	
Total Charges to Appropriations:	887,056	907,206	896,861	10,345
Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations	(42,907)	(33,767)	(2,787)	30,980
Fund Balance Allocation	42,907	33,767	2,787	(30,980)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ -	$ -	$ -	$ -

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

Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 894,074
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(36,581)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 857,493
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 896,861
Differences - budget to GAAP:	
Encumbrances for supplies, equipment, and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but in the year the supplies, equipment and services are received for financial reporting purposes	(25,916)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(54,255)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 816,690

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

The City noted budget violations within the Economic Development and Opportunity function. However, as sufficient fund balance covered individual functional excesses this was not deemed to be a material violation.

(unaudited - see accompanying auditors' report)

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2010

City of San Antonio, Texas

Pension and Postemployment Schedules

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-09	$ 2,166,924	$ 2,442,620	$ 275,696	88.7%	$ 269,359	102.4%
10-01-08	2,096,072	2,350,132	254,060	89.2%	243,904	104.2%
10-01-07	2,017,856	2,200,851	182,995	91.7%	229,547	79.7%

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
12-31-09	$ 515,884	$ 703,853	$ 187,969	73.3%	$ 258,932	72.6%
12-31-08	492,604	825,180	332,576	59.7%	259,224	128.3%
12-31-07	479,005	796,725	317,720	60.1%	244,530	129.9%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) [1]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 1,145,029	$ 1,169,302	$ 24,273	97.9%	$ 219,716	11.0%
02-01-08	1,084,569	1,103,865	19,296	98.3%	217,018	8.9%
01-01-07	1,012,067	1,041,471	29,404	97.2%	209,070	14.1%

[1] Actuarial assumptions were changed for the January 1, 2007, valuation as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data.

[2] Subsequent to the January 1, 2007, valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions.

* In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method.

(unaudited - see accompanying auditors' report)

Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-09	$68,756	$107,311	$38,555	64.1%	$81,821	47.1%
12-31-08	63,674	96,539	32,865	66.0%	74,448	44.1%
12-31-07	62,023	90,776	28,753	68.3%	68,412	42.0%

SAN ANTONIO WATER SYSTEM - SAWSRP

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-10	$77,365	$112,263	$34,898	68.9%	$82,923	42.1%
01-01-09	74,611	99,144	24,533	75.3%	70,252	34.9%
01-01-08	73,777	81,587	7,810	90.4%	66,996	11.7%

(unaudited - see accompanying auditors' report)

Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)

Postemployment Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [2]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 204,246	$ 219,364	$ 15,118	93.1%	$ 219,716	6.9%
02-01-08	194,876	247,283	52,407	78.8%	217,018	24.1%
01-01-07	150,818	220,691	69,873	68.3%	209,070	33.4%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 3,763	$ 6,575	$ 2,812	57.2%	$ 198,669	1.4%
02-01-08	3,734	5,712	1,978	65.4%	185,090	1.1%
01-01-07	3,925	5,211	1,286	75.3%	177,558	0.7%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 49,614	$ 35,491	$ (14,123)	139.8%	$ 198,669	(7.1)%
02-01-08	49,098	33,024	(16,074)	148.7%	185,090	(8.7)%
01-01-07	47,809	31,219	(16,590)	153.1%	177,558	(9.3)%

[1] Subsequent to the January 1, 2007 valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions

[2] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $87,900 for February 1, 2009; $94,200 for February 1, 2008; and $97,900 for January 1, 2007.

[3] CPS Energy has selected the aggregate cost method for determining Disability and Life Plans' funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the Plan.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Postemployment Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-09	$ -	$ 342,018	$ 342,018	0.0%	$ 259,224	131.9%
01-01-06		258,428	258,428	0.0%	231,262	111.7%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-09	$ 200,329	$ 549,466	$ 349,137	36.5%	$ 236,372	147.7%
10-01-08	208,384	561,035	352,651	37.1%	226,707	155.5%
10-01-07	188,147	513,484	325,337	36.6%	213,446	152.4%

SAN ANTONIO WATER SYSTEM - OPEB PLAN

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-09	$ -	$ 297,259	$ 297,259	0.0%	$ 75,270	394.9%
01-01-07		200,083	200,083	0.0%	69,288	288.8%

[1] City will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability for the Retiree Health Benefits Fund.

[2] SAWS will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability.

City of San Antonio, Texas

Federal Section

City of San Antonio, Texas

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

Schedule of Expenditures of Federal Awards
September 30, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
Office of National Drug Control Policy:					
Direct Programs:					
High Intensity Drug Trafficking Area Program:					
HIDTA Initiative San Antonio 2006		07.XXX	I6PSSP700Z	26-028079	$ 31,370
HIDTA Initiative San Antonio 2008		07.XXX	I8PSSP700Z	26-028082	51,835
HIDTA Initiative San Antonio 2009		07.XXX	G09SS0009A	26-02817007	760,728
HIDTA Initiative San Antonio 2010		07.XXX	G10SS0009A	26-02817009	1,149,646
Total High Intensity Drug Trafficking Area Program					$ 1,993,579
Total Office of National Drug Control Policy					$ 1,993,579
U.S. Department of Agriculture:					
Pass Through - Texas Department of State Health Services:					
Special Supplemental Nutrition Program for Women, Infants, and Children:					
WIC 2008-2009		10.557	2009-030106-001	26-016120	$ 73,574
WIC 2009-2010		10.557	2010-030106-001	26-01636047	6,643,327
Total Special Supplemental Nutrition Program for Women, Infants, and Children					$ 6,716,901
Pass Through - Texas Health and Human Services Commission:					
Summer Food Service Program for Children:					
Summer Food Program 2009		10.559	75J8005	26-020005	$ 17,176
Summer Food Program 2010		10.559	75J8005	26-02026004	697,719
Total Summer Food Service Program for Children					$ 714,895
Total U.S. Department of Agriculture					$ 7,431,796
U.S. Department of Defense:					
Direct Programs:					
Procurement Technical Assistance for Business Firms:					
PTAC 2009		12.002	SP4800-9-2-0886	26-032024	$ 43,313
PTAC 2010		12.002	SP4800-9-2-0886	26-03280001	151,521
Total Procurement Technical Assistance for Business Firms					$ 194,834
Community Economic Adjustment:	*				
Public Center Environmental Health 2003-2004		12.600	05C4TX142000000	26-032015	$ (33,484)
Public Center Environmental Health 2004-2011		12.600	PCEH FY04	26-032017	6,226
Public Center Environmental Health 2005-2006		12.600	PCEH FY06	26-032017	(742)
Public Center Environmental Health 2006-2007		12.600	PCEH FY07	26-032017	(556)
Public Center Environmental Health 2007-2008		12.600	PCEH FY08	26-032017	7,744
Public Center Environmental Health 2008-2009		12.600	BCA-KEL-01-0901	26-032022	(5,218)
Public Center Environmental Health 2009-2010		12.600	BCA-KEL-01-0901	26-03236004	238,790
Total Community Economic Adjustment					$ 212,760
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation:					
Office of Military Transformation 2008		12.607	RA06185-07-01	26-032000	$ 340
Office of Military Transformation 2009		12.607	RA06185-09-02	26-03248002	1,071,072
Total Community Economic Adjustment Assistance:					$ 1,071,412
Total U.S. Department of Defense					$ 1,479,006
U.S. Department of Housing and Urban Development:					
Direct Programs:					
Housing Counseling Assistance Program:					
Housing Counseling Program 2009		14.169	HC08-0898-077	26-054142	$ (638)
Housing Counseling Program 2010		14.169	HC-0821-044	26-05438015	50,868
Total Housing Counseling Assistance Program					$ 50,230
CDBG-Entitlement Grants Cluster:					
Community Development Block Grants/Entitlement Grants:	*				
Community Development Program - Multi		14.218	B93MC480508	28-099000	$ (2,354)
Community Development Program - 19th Year		14.218	B93MC480508	28-019000	(545)
Community Development Program - 20th Year		14.218	B93MC480508	28-020000	3,524
Community Development Program - 22nd Year		14.218	B93MC480508	28-022000	(332)
Community Development Program - 23rd Year		14.218	B93MC480508	28-023000	24,153
Community Development Program - 25th Year		14.218	B93MC480508	28-025000	(707,826)
Community Development Program - 26th Year		14.218	B96MC480508	28-026000	(7,737)
Community Development Program - 27th Year		14.218	B01MC480508	28-027000	(12,259)
Community Development Program - 28th Year		14.218	B02MC480508	28-028000	(20,888)
Community Development Program - 29th Year		14.218	B03MC480508	28-029000	(7,777)
Community Development Program - 30th Year		14.218	B04MC480508	28-030000	(4,570,478)
Community Development Program - 31st Year		14.218	B05MC480508	28-031000	1,655,719
Community Development Program - 32nd Year		14.218	B06MC480508	28-032000	(329,336)
Community Development Program - 33rd Year		14.218	B07MC480508	28-033000	733,807
Community Development Program - 34th Year		14.218	B08MC480508	28-034000	645,642
Community Development Program - 35th Year		14.218	B09MC480508	28-035000	12,254,181
Neighborhood Stabilization Grant		14.218	B08MN480501	23-28000001	6,845,061
Total Community Development Block Grants/Entitlement Grants					$ 16,502,555
Recovery Act Community Development Block Grant:	*				
ARRA Community Development Block Grant		14.253	B09MY480508	23-28000000	$ 2,001,791
Total CDBG-Entitlement Grants Cluster:					$ 18,504,346
Community Development Entitlement Grants-Section 108 Loan Guarantees:					
Community Development Block Grants - Section 108 Loans		14.248	MC480508	27-040000	$ 9,122,903
Subtotal U.S. Department of Housing and Urban Development					$ 27,677,479

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Schedule of Expenditures of Federal Awards
September 30, 2010

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):					
Emergency Shelter Grants Program:					
ESG 2006-2008		14.231	S06MC480508	26-054129	$ 31
ESG 2007-2009		14.231	S07MC480508	26-054134	17,829
ESG 2008-2010		14.231	S08MC480508	26-054141	321,631
ESG 2009-2011		14.231	S09MC480509	26-05438016	351,258
Total Emergency Shelter Grants Program					$ 690,749
Supportive Housing Program:	*				
SHP 2001		14.235	TX59B100	26-054105	$ (26,341)
SHP 2002		14.235	TX59B200	26-054112	2,190
SHP 2005		14.235	TX59B500	26-054127	(81,128)
SHP 2006		14.235	TX59B600	26-054132	(31,041)
SHP 2007		14.235	TX59B700	26-054138	278,009
SHP 2008		14.235	TX59B800	26-054144	4,151,166
SHP 2009		14.235	TX59B900	26-05438019	511,587
Total Supportive Housing Program					$ 4,804,442
HOME Investment Partnerships Program:					
HOME Program Grant - 5th Year		14.239	M96MC480508	25-005000	$ 33,333
HOME Program Grant - 11th Year		14.239	M02MC480508	25-011000	478,380
HOME Program Grant - 12th Year		14.239	M03MC480508	25-012000	280,150
HOME Program Grant - 13th Year		14.239	M04MC480508	25-013000	282,296
HOME Program Grant - 14th Year		14.239	M05MC480508	25-014000	94,028
HOME Program Grant - 15th Year		14.239	M06MC480508	25-015000	678,855
HOME Program Grant - 16th Year		14.239	M07MC480508	25-016000	693,734
HOME Program Grant - 17th Year		14.239	M08MC480508	25-017000	3,281,912
HOME Program Grant - 18th Year		14.239	M09MC480508	25-018000	3,403,597
HOME Program Grant - 19th Year		14.239	M10MC480508	25-019000	729,436
Total HOME Investment Partnerships Program					$ 9,955,721
Housing Opportunities for Persons with AIDS:					
HOPWA 2003-2004		14.241	TXH03F005	26-054111	$ (8,211)
HOPWA 2005-2008		14.241	TXH05F005	26-054124	(3,239)
HOPWA 2006-2009		14.241	TXH06F005	26-054128	(103,694)
HOPWA 2007-2010		14.241	TXH07F005	26-054133	19,553
HOPWA 2008-2011		14.241	H-08-MC-48-0508	26-054143	53,625
HOPWA 2009-2012		14.241	TXH09F005	26-05438017	1,040,528
Total Housing Opportunities for Persons with AIDS					$ 998,562
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants:					
Railway Safety Classroom Building		14.251	B-08-SP-TX-0146	26-054139	$ 5,809
Fair Housing Initiatives Program:					
Fair Housing Initiatives Program 2005-2006		14.408	FH400G05011	26-054126	$ 7,534
Lead Hazard Reduction Demonstration Grant Program:					
Lead Hazard Reduction Demonstration 2007-2010		14.905	TXLHD0165-07	26-054137	$ 1,275,108
Lead Hazard Reduction Demonstration 2010-2013		14.905	TXLHD0201-09	26-05461002	221,434
Total Lead Hazard Reduction Demonstration Grant Program					$ 1,496,542
Recovery Act Homelessness Prevention & Rapid Re-Housing Program:	*				
ARRA Homeless Prevention & Rapid Re-Housing 2009-2012		14.257	S09-48-MY-48-0508	23-05438001	$ 2,453,310
Pass Through - Texas Department of Housing and Community Affairs:	*				
Recovery Act Homelessness Prevention & Rapid Re-Housing Program:					
ARRA Homeless Prevention & Rapid Re-Housing 2009-2012		14.257	S-09-DY-48-001	23-05438002	493,459
Total Recovery Act Homelessness Prevention & Rapid Re-Housing Program					$ 2,946,769
Total U.S. Department of Housing and Urban Development					$ 48,583,607
U.S. Department of the Interior, National Park Service:					
Pass Through - Texas Historical Commission:					
Historic Preservation Fund Grant-In Aid:					
Training and Travel - THC Grant		15.904	TX-06-029	26-006020	$ 1,707
Total U.S. Department of the Interior, National Park Service					$ 1,707
U.S. Department of Justice:					
Pass-Through - Office of the Governor, Criminal Justice Division:					
Juvenile Accountability Block Grants:					
Juvenile Accountability Block Grant		16.523	JB08J202153901	26-05538001	$ 15,373
Edward Byrne Memorial Justice Assistance Grant Program:					
TRU Special Initiative Grant 2008-2009		16.738	JB05J201330108	26-055342	$ 5,967
Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories:					
ARRA JAG Program 2009		16.803	2198401	23-02817003	$ 257,894
Direct Programs:					
Edward Byrne Memorial Formula Grant Program:					
JAG 2007-2011		16.579	2007F4223TXDJ	26-028084	$ 31,185
JAG 2008-2012		16.579	2008F7723TXDJ	26-02817002	122,849
JAG 2009-2013		16.579	2009DJBX1335	26-02817010	217,840
Total Edward Byrne Memorial Formula Grant Program					$ 371,874
Bulletproof Vest Partnership Program:					
Ballistic Vest Acquisition Program		16.607	09BOBX08045082	26-028086	$ 71,746
Public Safety Partnership and Community Policing Grants:	*				
Cops Technology Program Grant		16.710	2007CKWX0055	28-028087	$ 2,101,512
Methamphetamine Grant 2004		16.710	2004CKWX0402	26-028076	7,172
Total Public Safety Partnership and Community Policing Grants					$ 2,108,684
Subtotal U.S. Department of Justice					$ 2,831,538

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Schedule of Expenditures of Federal Awards
September 30, 2010

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):					
Recovery Act Public Safety Partnership and Community Policing Grants:	*				
ARRA COPS Hiring Program		16.710	2009RJWX0083	23-02817001	$ 1,908,664
Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government:					
ARRA JAG Local 2009	*	16.804	2009-SB-B9-2934	23-02817002	$ 2,020,484
Federal Confiscated Property:					
Federal Account		16.XXX	N/A	29-039000	$ 454,736
HIDTA - Federal Account		16.XXX	N/A	29-046000	376,109
Total Federal Confiscated Property					$ 830,845
Total U.S. Department of Justice					$ 7,591,531
U.S. Department of Transportation:					
Direct Programs:					
Airport Improvement Program:	*				
Airport Apron Rehab 53-07		20.106	34801925307	26-058098	$ 2,150,057
Airfield Pavement Repairs 5708		20.106	34801925708	26-05833027	1,718
Master Plan 60-09		20.106	34801926209	26-05833036	1,341,374
Sky Place Drainage 57-08		20.106	34801925708	26-058104	30,960
Residential Acoustical Program 56-08		20.106	34801925608	26-058083	3,491,867
Residential Acoustical Program 59-09		20.106	34801925909	26-05833034	6,143,298
Residential Acoustical Program 63-10		20.106	34801926310	26-05833038	177,056
Runway 3-21 Extension 5708		20.106	34801925708	26-058104	558,551
Runway 3-21 Extension 5808		20.106	34801925808	26-058105	382,580
Runway 3-21 Extension 6109		20.106	34801926109	26-05833037	250,421
Runway Safety Action Team 53-07		20.106	348019253007	26-058096	68,635
Terminal and Airfield Security 44-02		20.106	34801924402	26-058082	185,681
Terminal Area Forecast 52-06		20.106	348019252006	26-058090	104,257
Taxiway R Extension 53-07		20.106	348019253007	26-058097	39,181
Taxiway R Extension 60-09		20.106	348019262009	26-05833035	722,910
Total Airport Improvement Program					$ 15,648,546
National Motor Carrier Safety Program:					
MCSAP High Priority Grant 2010		20.218	MH10480SANA000	26-05917009	$ 6,260
Pass Through - Bexar County Metropolitan Planning Office:					
Federal Transit Metropolitan Planning Program:					
Transportation Study Office 2001-2002		20.505	PL-0011(25)	26-059189	$ 4,024
Transportation Study Office 2002-2003		20.505	PL-0011(25)	26-059197	12,019
Total Federal Transit Metropolitan Planning Program					$ 16,043
Pass Through - Texas Department of Transportation:					
Highway Research and Development Program:					
Traffic Signal System Modernization/Synchronization Program		20.200	15-8XXF7001		$ 1,425,917
Recovery Act Highway Planning and Construction Program:					
ARRA Local Streets Project		20.205	CSJ 0915-12-329	23-05940001	$ 1,586,123
Recreational Trails Program:					
MPO Hike and Bike 2008-2009		20.219	NONE	26-059217	$ (3,501)
Capital Assistance Program for Elderly Persons and Persons with Disabilities:					
Elderly & Persons with Disabilities		20.513	51915F7246	26-05938002	$ 20,879
Alcohol Impaired Driving Countermeasures Incentive Grants I:					
DWI Step Program 2008-2009		20.601	2009-S-SYG-0157	26-059221	$ 16,867
DWI Step Program 2009-2010		20.601	2010-S-SYG-0006	26-059222	393,236
Click It Or Ticket 2010		20.601	2010-CIOT-00016	26-05917006	209,535
Impaired Driving Mobilization 2010		20.601	STEP IDM-00007	26-05917007	93,279
Total Alcohol Impaired Driving Countermeasures Incentive Grants I:					$ 712,917
Total U.S. Department of Transportation					$ 19,413,184
U.S. General Services Administration:					
Pass Through - Texas Facilities Commission:					
Donation of Federal Surplus Personal Property:					
Federal Surplus Property Program		39.003	N/A	N/A	$ 20,990
Total U.S. General Services Administration:					$ 20,990
National Endowment of the Arts:					
Pass Through - Texas Commission of the Arts:					
Program of the Arts:					
TCA Subgranting Grant 2009-2010		45.025	09-6100-2039	26-00528003	$ 5,000
Total National Endowment of the Arts					$ 5,000
Institute of Museum and Library Services:					
Pass Through - Texas State Library and Archives Commission:					
Grants to States:					
Interlibrary Loan Services 2009-2010		45.310	N/A	26-01804009	$ 273,412
Interlibrary Loan Services 2010-2011		45.310	N/A	26-01804013	18,608
Library System Operation 2006-2007		45.310	N/A	26-018134	(333)
Library System Operation 2008-2009		45.310	N/A	26-018140	6,103
Library System Operation 2009-2010		45.310	N/A	26-01804009	335,990
Library System Operation 2010-2011		45.310	N/A	26-01804011	21,342
Tech Assist Negotiated Grant 2009-2010		45.310	N/A	26-01804009	79,806
Tech Assist Negotiated Grant 2010-2011		45.310	N/A	26-01804012	6,101
Total Institute of Museum and Library Services					$ 741,029

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Schedule of Expenditures of Federal Awards
September 30, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
Department of Energy:					
Pass Through - State Energy Conservation Office:					
Residential Green Building Outreach Program:					
Build San Antonio Green 2010		81.041	CM1004	26-01455002	$ 40,000
Pass Through - Texas Department of Housing and Community Affairs:					
Recovery Act Weatherization Assistance for Low Income People:	*				
ARRA Weatherization Assistance Program		81.042	16090000751	23-01455000	$ 3,895,548
Pass Through - Railroad Commission of Texas:					
Recovery Act Conservation Research and Development:					
ARRA Texas Propane Fleet Program		81.086	570827	23-01415000	$ 268,515
Direct Program:					
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance:					
Solar San Antonio 2015 DOE 2008		81.117	DE-FC36-08G018097	26-014000	$ 16,342
Recovery Act Energy Efficiency and Conservation Block Program:					
ARRA Energy Efficiency and Conservation Block Grant		81.128	DE-EE0000970/00	23-01455001	$ 2,858,696
Total Department of Energy					$ 7,079,101
Department of Education:					
Pass Through - Texas Education Agency:					
Adult Education - Basic Grants to State:					
English Literacy/Civics Education 2007-2008		84.002	SASA31708	26-041007	$ (144)
English Literacy/Civics Education 2009-2010		84.002	104100087110356	26-04138003	77,529
English Literacy/Civics Education 2010-2011		84.002	114100087110405	26-04138004	29,863
Total Adult Education - Basic Grants to State					$ 107,248
Total Department of Education					$ 107,248
U.S. Department of Health and Human Services:					
Pass Through - Alamo Area Council of Governments:					
Aging Cluster:					
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers:	*				
SSEP Supportive Service for Elderly 2008-2009		93.044	COSA 09 SST	26-011080	$ 28,355
SSEP Supportive Service for Elderly 2009-2010		93.044	COSA 10 SST	26-01138008	353,412
Total Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers:					$ 381,767
Special Program for the Aging - Title III, Part C - Nutrition Services:	*				
CNP 2007-2008		93.045	COSA 08 NS	26-011078	$ (67,440)
CNP 2008-2009		93.045	COSA 09 NS	26-011081	82,591
CNP 2009-2010		93.045	COSA 10 NS	26-01138007	3,018,062
Total Special Program for the Aging - Title III, Part C - Nutrition Services					$ 3,033,213
Recovery Act Aging Congregate Nutrition Services Grant:	*				
ARRA Comprehensive Nutrition Program		93.707	COSA-10-NS	23-01138001	$ 284,500
Total Aging Cluster					$ 3,699,480
Pass Through-Texas Department of State Health Services:					
Public Health Emergency Preparedness:	*				
Bio-Terrorism Preparation 2009-2010		93.069	2009-032264-001	26-01636035	$ 880,434
Bio-Terrorism Preparation 2010-2012		93.069	2010-035646-001	26-01636054	130,053
Bio-Terrorism Preparation Lab 2009-2010		93.069	2009-032166-001	26-01636034	192,682
Bio-Terrorism Preparation Lab 2010-2012		93.069	2010-035432-001	26-01636055	15,484
Cities Readiness Initiative 2009-2010		93.069	2009-031762-001	26-01636033	219,743
Cities Readiness Initiative 2010-2012		93.069	2010-035645-001	26-01636056	31,332
Public Health Emergency Response 2010		93.069	2010-033620-001	26-01636046	2,911,749
Public Health Emergency Response-Focus Area 2		93.069	2010-033418-001	26-01636045	261,260
Public Health Emergency Response H1N1 Vaccines 2009		93.069	N/A	26-01636045	1,005,340
Total Public Health Emergency Preparedness					$ 5,648,077
Center for Disease Control and Prevention - Investigations and Technical Assistance:					
DHHS ATSDR Environment 2010		93.070	1H75EH000633-01	26-02236006	$ 182,292
Project Grants and Cooperative Agreements for Tuberculosis Control Programs:					
Special T.B. Team Project 2009		93.116	2009-030588-001	26-01636027	$ 75,809
Special T.B. Team Project 2010		93.116	2010-034139-001	26-02236009	256,626
Total Tuberculosis Control Program					$ 332,435
Childhood Lead Poisoning Prevention Program:					
Childhood Lead Poisoning Prevention 2010-2011		93.197	2010-035118-001	26-01636051	$ 13,566
Occupational Safety and Health Program:					
EPI-Blood Lead Surveillance 2009-2010		93.262	7460020708D2007	26-01636003	$ 52,968
Immunization Cluster:					
Immunization Grants:	*				
Immunization Program 317 - 2009		93.268	5H23IP622512-07	26-022129	$ 462,772
Immunization Program 317 - 2010		93.268	5H23IP622512-08	26-02236007	1,093,680
VFC Immunization Program 2009		93.268	5H23IP622512-07	26-022129	160,237
VFC Immunization Program 2010		93.268	5H23IP622512-08	26-02236007	388,759
Immunization Branches - Local 2010		93.268	2010-031805-001	26-01636037	581,552
Immunization Branches - Local 2011		93.268	2011-035453-001	26-01636063	45,694
Total Immunization Grants					$ 2,732,694
Recovery Act Immunization Grants:	*				
ARRA Immunization and Vaccines for Children		93.712	3H23IP622512-07	23-02236000	$ 31,727
Total Immunization Cluster					$ 2,764,421
Subtotal U.S. Department of Health and Human Services					$ 12,693,239

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Schedule of Expenditures of Federal Awards
September 30, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services (Continued):					
Pass Through-Texas Department of State Health Services (Continued):					
Center for Disease Control and Prevention - Investigations and Technical Assistance:					
Bio-Terrorism Preparation 2007-2008		93.283	2008-022935-001	26-016078	$ (6,187)
Bio-Terrorism Preparation 2008-2009		93.283	2008-028021-001	26-016120	16
Bio-Terrorism Discretionary Fund Project		93.283	2009-031326	26-01636032	85,020
DHHS ATSDR Environment Health & Wellness		93.283	1H75EH000374-01	26-022113	36,781
Steps to a Healthier US 2008-2009		93.283	5U58DP624469-05	26-022128	399,468
Worksite Wellness 2009-2010		93.283	2009-031517	26-02238006	35,014
Total Center for Disease Control and Prevention - Investigations and Technical Assistance					$ 550,112
Pass Through - Texas Department of Housing and Community Affairs:					
CSBG Cluster:					
Community Services Block Grant:	*				
CSBG - 2009		93.569	61090000384	26-060082	$ 552,465
CSBG - 2010		93.569	61100000875	26-06038005	1,177,943
Total Community Services Block Grant					$ 1,730,408
Recovery Act Community Service Block Grant:	*				
ARRA CSBG		93.710	11090000561	23-06038000	$ 3,066,374
Total CSBG Cluster					$ 4,796,782
Pass Through - Alamo Workforce Development, Inc.:					
Child Care Cluster:					
Child Care and Development Block Grant:	*				
CCDS - 2008-2009		93.575	CCDS2003001	26-039022	$ 657,071
CCDS - 2009-2010		93.575	CCDS2008001	26-03938004	1,091,156
Total Child Care and Development Block Grant					$ 1,748,227
Recovery Act Child Care and Development Block Grant:	*				
ARRA Child Care and Development Services		93.713	CCS2008001	23-01738001	$ 9,797,717
Child Care Mandatory and Matching Funds of the Child Care and Development Fund:	*				
CCDS - 2005-2006		93.596	CCDS2003001	26-039018	$ 1,661
CCDS - 2006-2007		93.596	CCDS2003001	26-039019	5,050
CCDS - 2007-2008		93.596	CCDS2003001	26-039021	6,926
CCDS - 2008-2009		93.596	CCDS2003001	26-039022	(511,071)
CCDS - 2009-2010		93.596	CCDS2003001	26-03938004	39,775,169
Total Child Care Mandatory and Matching Funds of the Child Care and Development Fund					$ 39,277,735
Total Child Care Cluster					$ 50,823,679
Direct Programs:					
Head Start Cluster:					
Head Start:	*				
Head Start Program 2009		93.600	06CH0107/31	26-022131	$ 17,781,817
Head Start Program 2010		93.600	06CH0107/32	26-02238010	28,471,956
Total Head Start Program					$ 46,253,773
Recovery Act Head Start Program:	*				
ARRA Head Start Program		93.708	06SE0107/01	23-02238000	$ 3,396,016
Total Head Start Cluster					$ 49,649,789
Assets for Independence Demonstration Program:					
Families Save 3 IDA		93.602	90E10308/01	26-022107	$ 169,976
Families Save 4 IDA		93.602	90EI033/01	26-022130	19,567
Total Assets for Independence Demonstration Program					$ 189,543
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs:					
Breast/Cervical Cancer Control 2007-2008		93.919	2007-022868-001	26-016074	$ 889
Healthy Start Initiative:					
Healthy Start Initiative 2009-2010		93.926	H49MC00101C0	26-02236005	$ 452,365
Healthy Start Initiative 2010-2011		93.926	H49MC00101D0	26-02236015	221,651
Total Healthy Start Initiative:					$ 674,016
Human Immunodeficiency Virus (HIV) Prevention Activities:					
STD-HIV 2010		93.940	2010-034561-001	26-02236008	$ 422,217
Assistance Programs for Chronic Disease Prevention and Control					
Worksite Wellness Grant		93.945	2010-034984-001	26-02236012	$ 1,554
Preventative Health Services - Sexually Transmitted Diseases Control Grants:					
STD-HIV 2009		93.977	2009-030618-001	26-016121	$ 244,040
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems:					
Families Preventing Diabetes Program 2005-2006		93.988	7460020708 2006	26-016104	$ (115)
Communities Diabetes Program 2009		93.988	2009-031053	26-016125	46,003
Communities Diabetes Program 2010		93.988	2010-034761-001	26-01636048	26,123
Total Cooperative Agreements for State-Based Diabetes - Control Programs and Evaluation of Surveillance Systems					$ 72,011
Subtotal U.S. Department of Health and Human Services					$ 107,424,632

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Schedule of Expenditures of Federal Awards
September 30, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR/FEDERAL PROGRAM		FEDERAL CFDA NUMBER	GRANT NUMBER	CITY NUMBER	FEDERAL EXPENDITURES
Pass Through - Texas Department of State Health Services:					
Social Services Block Grant:					
Title XX Family Planning 2006-2007		93.667	2007-020438-003	26-016108	$ 88,056
Title XX Family Planning 2007-2008		93.667	2008-023702-001	26-016115	8,926
Regional Local Services System		93.667	2010-034975-001	26-01636050	256,928
Total Social Services Block Grant					$ 353,910
Recovery Act Community Putting Prevention to Work Program:					
ARRA Communities Putting Prevention to Work		93.724	1U58DP002453	23-02236001	$ 792,334
National Bioterrorism Hospital Preparedness Program:					
Laboratory Response Network		93.889	2009-032144-001	26-01636036	$ 27,346
PHEP LAB-HPP		93.889	2010-035152-001	26-01636052	6,597
Total National Bioterrorism Hospital Preparedness Program					$ 33,943
Preventive Health and Health Services Block Grant:					
RLSS - Local Public Health (Triple O) 2008-2009		93.991	2009-028477-001	26-016120	$ 270
RLSS - Local Public Health (Triple O) 2009-2010		93.991	2010-032895-001	26-01636041	250,267
RLSS - Local Public Health (Triple O) 2010-2011		93.991	2011-035281-001	26-01636062	17,428
Total Preventive Health and Health Services Block Grant					$ 267,965
Maternal and Child Health Services Block Grant to the States:					
Title V Maternal and Child Health 2006-2007		93.994	2007-020438-001	26-016108	$ 32,175
Title V CHS - Dental Services 2008-2009		93.994	2009-029839-001	26-016120	(6,463)
Title V CHS - Dental Services 2009-2010		93.994	2010-031660-001	26-01636040	69,176
Total Maternal and Child Health Services Block Grant to the States					$ 94,888
Total U.S. Department of Health and Human Services					$ 121,660,911
U.S. Department of Homeland Security:					
Direct Programs:					
Assistance to Firefighters Grant:					
Assistance to Firefighters Grant 2006		97.044	EMW2006FG05971	26-056065	$ (54)
Assistance to Firefighters Grant 2010		97.044	EMW2009FF00377	26-06520014	11,032
Total Assistance to Firefighters Grant					$ 10,978
National Explosives Detection Canine Team Program:					
Airport K9 Grant 2010		97.072	HSTS0208HCAN448	26-06533008	$ 300,500
Law Enforcement Officer Reimbursement Agreement Program:					
Airport Checkpoint Grant 2010		97.090	HSTS0208HSLR129	26-06533009	$ 346,745
ARRA TSA Airport Checked Baggage Inspection System Program	*				
ARRA Electronic Baggage System Program		97.117	HSTS0409HCT1234	23-06533001	$ 6,986,914
Pass Through - Office of the Governor:					
Homeland Security Cluster:					
Urban Areas Security Initiative:	*				
UASI 2006		97.008	2006-GET60068	26-065019	$ 5,170
UASI 2007		97.008	07-GA 65000-09	26-065026	2,378,353
UASI 2008		97.008	08-SR 65000-05	26-065333	1,852,806
UASI 2009		97.008	09-SS-T9-0064	26-06520013	129,772
Total Urban Areas Security Initiative					$ 4,366,101
Emergency Management Performance Grants:	*				
EMPG 2010		97.042	10TX-EMPG-10632	26-06520015	$ 47,907
Metropolitan Medical Response System:	*				
Metro Medical Response System 2004-2006		97.071	06-SR-65000-01	26-065005	$ 276
Metro Medical Response System 2007		97.071	07-GA-65000-01	26-065026	116,043
Metro Medical Response System 2009		97.071	09-SS-T9-0064	26-06520013	6,824
Total Metropolitan Medical Response System					$ 123,143
State Homeland Security Program:	*				
SHSP 2007		97.073	07-GA 65000-09	26-065026	$ 398,933
SHSP 2008		97.073	08-SR 65000-05	26-065333	264,815
SHSP 2009		97.073	09-SS-T9-0064	26-06520013	88,819
Total State Homeland Security Program					$ 752,567
Law Enforcement Terrorism Prevention Program (LETPP):	*				
Law Enforcement Terrorism Prevention 2007		97.074	07-GA 65000-09	26-065026	$ 123,043
Total Homeland Security Cluster					$ 5,412,761
Interoperable Emergency Communications Grant:					
Public Safety Interoperable Communications		97.055	07 SR-97223-01	26-065027	$ 2,224,625
Total U.S. Department of Homeland Security					$ 15,282,523
TOTAL EXPENDITURES OF FEDERAL AWARDS					**$ 231,391,212**

* Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Amounts are expressed in thousands

Notes to the Schedule of Expenditures of Federal Awards Year Ended
September 30, 2010

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

2. In March 1998, the City of San Antonio accepted a U.S. Department of Housing and Urban Development (HUD) Section 108 award in an amount up to $38,700,000 which authorized a loan transaction with the Greater Kelly Development Corporation, now known as Port San Antonio (Port) to fund certain improvements in real property to be leased at KellyUSA. As of September 30, 2010, the City has made third party loans to the Port in the amount of $20,000,000. The construction portion of this program terminated March 2003 and currently, the only activity is the loan repayment account. This loan program contains no continuing compliance requirements.

3. In September 2004, City Council authorized the submission of a $57,000,000 HUD 108 loan application to HUD, which was received August 2006. Proceeds of the loan have been utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities. As of September 30, 2010, $40,320,753 has been expended. Funds are required to be fully expended by December 1, 2011.

4. In fiscal year 2010, the City provided federal awards to subrecipients as follows:

Program Titles	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	$ 2,734,579
ARRA Community Development Block Grants	14.253	1,027,206
Emergency Shelter Grants Program	14.231	174,369
Supportive Housing Program	14.235	3,509,399
HOME Investment Partnerships Program	14.239	5,082,856
Housing Opportunities for Persons with AIDS	14.241	1,015,650
ARRA Homeless Prevention and Rapid Rehousing	14.257	2,468,893
ARRA Weatherization Assistance Program	81.042	3,831,536
ARRA Energy Efficiency and Conservation Block Grant	81.128	125,402
Steps to a Healthier US	93.283	192,765
Child Care and Development Block Grant	93.596	529,334.86
Head Start	93.600	45,302,096
ARRA Head Start	93.708	2,499,623
ARRA Community Service Block Grant	93.710	2,631,850
ARRA Child Care and Development Block Grant	93.713	107,667
Total		$ 71,233,226

Notes to the Schedule of Expenditures of Federal Awards Year Ended (Continued)
September 30, 2010

5. As of September 30, 2010, the City had HOME Program Notes Receivable of $22,462,363. 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, 2010, the City had CDBG Program Notes Receivable of $13,691,183. These are rental rehabilitation loans. Some loans are forgivable provided the program and loan criteria are met.

City of San Antonio, Texas

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

Grant Thornton

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

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March11, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, and San Antonio Housing Trust Finance Corporation blended component units, which represent 71%, 80% and 29%, respectively, of the assets, net assets/fund balances and revenues /additions of the aggregate remaining fund information. Other auditors also audited the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units, as described in our report on the City's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of SA Energy Acquisition Public Facilities Corporation, San Antonio Housing Trust Finance Corporation, and City Public Service of San Antonio audited by other auditors were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Grant Thornton

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we have reported to management of the City in a separate letter dated March 11, 2011.

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

Grant Thornton LLP

Dallas, Texas
March 11, 2011

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

City of San Antonio, Texas

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Grant Thornton

Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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

Compliance

We have audited the compliance of the City of San Antonio, Texas (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port Authority of San Antonio, San Antonio Water System, City of Public Service of San Antonio, and Brooks Development Authority which expended $32,766,216 in federal awards which is not included in the schedule during the year ended September 30, 2010. Our audit, described below, did not include the operations of the Port Authority of San Antonio, San Antonio Water System, City of Public Service of San Antonio, and Brooks Development Authority because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Our audit disclosed the following material noncompliance with Allowable Costs/Costs Principles applicable to the Aging Cluster, Community Economic Adjustment Program and the Supportive Housing Program and with the Special Tests and Provisions for Awards with ARRA Funding – Subrecipient Monitoring applicable to ARRA Community Development Block Grants Cluster, ARRA Homelessness Prevention and Rapid Re-Housing Program, ARRA Edward Bryne Memorial Justice Assistance Grant Program/Grants to Units of Local Governments, ARRA Weatherization Assistance for Low Income People, ARRA Head Start Cluster, ARRA Community Services Block Grant Cluster, and ARRA Child Care and Development Fund Cluster during the year ended September 30, 2010 described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01, 2010-03, and 2010-08.

In our opinion, except for the material noncompliance described in the previous paragraph, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The results of our audit procedures also disclosed other instances of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-02, 2010-04 through 2010-06, that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01, 2010-03 and 2010-08, that we consider to be material weaknesses in the City's internal control over compliance.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-02 and 2010-04 through 2010-07, that we consider to be significant deficiencies in the City's internal control over compliance.

Grant Thornton

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

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

Grant Thornton LLP

Dallas, Texas
March 11, 2011

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

City of San Antonio, Texas

Schedule of Findings and Questioned Costs

Federal

Schedule of Findings and Questioned Costs
Federal Grants
Year-Ended September 30, 2010

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness (es) identified?	_____	Yes	X	No
Significant deficiencies identified that are not considered to be material weaknesses?	_____	Yes	X	No
Noncompliance material to financial statements noted?	_____	Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	X	Yes	_____	No
Significant deficiencies identified that are not considered to be material weaknesses?	X	Yes	_____	No
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except as noted below:			

- Community Economic Adjustment
- Community Development Block Grants Cluster
- Supportive Housing Program
- ARRA Homelessness Prevention and Rapid Re-Housing Program
- ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments
- ARRA Weatherization Assistance for Low Income People
- Aging Cluster
- Community Services Block Grant Cluster
- Child Care and Development Fund Cluster
- Head Start Cluster

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
12.600	Community Economic Adjustment
14.218, ARRA-14.253	Community Development Block Grants Cluster
14.235	Supportive Housing Program
ARRA-14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program
16.710, ARRA-16.710	Public Safety Partnership and Community Policing Grants
ARRA-16.804	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments
20.106	Airport Improvement Program
ARRA-81.042	ARRA - Weatherization Assistance for Low Income People

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

93.044, 93.045, ARRA-93.707	Aging Cluster
93.069	Public Health Emergency Preparedness
93.268, ARRA-93.712	Immunization Cluster
93.569, ARRA-93.710	Community Services Block Grant Cluster
93.575, ARRA-93.713, 93.596	Child Care and Development Fund Cluster
93.600, ARRA-93.708	Head Start Cluster
ARRA-97.117	ARRA - TSA Airport Checked Baggage Inspection System Program
97.008, 97.042, 97.071, 97.073, 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

SECTION II – FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS

The results of our procedures disclosed no findings to be reported for the year ended September 30, 2010.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding: 2010-01
Allowable Costs/Cost Principles

CFDA #12.600 – Community Economic Adjustment
Award Number - BCA-KEL-01-0901
Award Year – October 1, 2001 – December 31, 2011
Federal Agency – U.S. Department of Defense
Pass-through entity – N/A

CFDA #93.044, 93.045, 93.707 – Aging Cluster
Award Number - COSA 09 SST, COSA 10 SST, COSA 09 NS, COSA 10 NS
Award Year – 2008 - 2010
Federal Agency - U.S. Department of Health and Human Services
Pass-through entity - Alamo Area Council of Governments

Type of Finding - Material Weakness and Material Noncompliance

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

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

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Condition:
We noted that employees working solely on the Aging Cluster and Community Economic Adjustment grants did not complete the required semi-annual certifications.

Questioned Costs:
Not applicable

Context:
Aging Cluster - It was noted that out of the ten payroll expenditures judgmentally selected for testing, none had a signed semi-annual certification on file.

Community Economic Adjustment - There was one employee noted who worked solely on this grant but did not have a signed semi-annual certification on file.

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

Cause:
Lack of awareness of the requirement to maintain semi-annual certifications for employees working solely on a single grant.

Recommendation:
We recommend that the City establish a consistent means of documenting certifications among departments. The City may consider having the departments receiving grant funds modify the timesheet to include a certifying statement such as "I certify this is a true and accurate statement that the time recorded represents 100% of my time charge to the specific grant program."

Views of responsible officials and planned corrective actions:
The City revised its Administrative Directive (AD) 8.10 – Financial Management for Grants in July 2010. Included within AD 8.10 are semi-annual and time sheet templates that both include "certification" language. The Department of Community Initiatives implemented a time sheet process to correct this problem. Included in that process is the department's fiscal responsibilities of preparing journal entries to capture the employees actual time spent working on each program based on their time sheets.

Implementation Date:
October 1, 2010

Responsible Persons:
Gloria Hurtado, Director
Department of Community Initiatives

Dr. John Nava, Interim Director
Health Department

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Finding: 2010-02
Davis Bacon
CFDA #14.218/14.253 - Community Development Block Grants Cluster
Award Number - B09MC480508, B08MN480501, B09MY480508
Award Year - 2009/2010
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of Finding - Significant Deficiency and Noncompliance

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

Condition:
Performing interviews with staff site visits was noted as one of the key controls used to evaluate contractor compliance with Davis Bacon Act guidelines. During our review of compliance with the Davis Bacon Act, we noted that the City was not consistently performing site visits for construction contracts.

Questioned Costs:
Not applicable

Context:
From the review of the Davis Bacon contracts which occurred during fiscal year ending September 30, 2010, we found that twenty Davis Bacon contracts occurred during the period. Seven out of the twenty files reviewed did not have evidence of any site visits during the fiscal year. We noted that the Capital Improvement Management Services (CIMS) department developed a risk matrix analysis to identify contractors for which a site visit was not necessary. This matrix was unofficially used by staff to determine when a site visit was necessary but was not part of the official file kept on each contractor because it was not approved by the department supervisor. We also noted that Grants Management Administration (GMA) does perform desk reviews for each project funded with CDBG funds, which includes reviewing reimbursement requests submitted by each contractor and on-going monitoring involving follow up by phone and email. However, these desk reviews did not involve any interviews with employees, examinations of payroll data, or obtaining evidence of registration and certifications with respect to apprenticeships and training plans.

Effect:
The City's lack of consistency using site visits may cause the City to fail to discover noncompliance by contractors, which could potentially lead to loss or return of funding.

Cause:
Management failed to approve their risk matrix on a timely basis while staff continued to operate on the premise that the matrix would be approved.

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

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Views of responsible officials and planned corrective actions:
An analyst from CIMS' Director's Office has been assigned to finalize the Labor Compliance Office Policy and Procedures Manual (which will include the risk analysis and methodology) by March 30, 2011. The Compliance Division Manager will ensure the procedures will be implemented immediately. The Labor Compliance Office Supervisor has developed a monthly prospective site visit plan beginning March 1, 2011.

Implementation Date:
March 30, 2011

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

Michael S. Frisbie, Director
Capital Improvements Management Services

Finding: 2010-03
Allowable Costs/Cost Principles

CFDA #14.235 – Supportive Housing Program
Award Number - TX59B700, TX59B800, TX59B900
Award Year - 2007-2009
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of Finding: Material Weakness and Material Noncompliance

Criteria or Specific Requirement:
According to OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments (A-87)*, charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation that must: (1) reflect an after the fact distribution of the actual activity of each employee; (2) account for the total activity for which each employee is compensated; (3) be prepared at least monthly and must coincide with one or more pay periods; and (4) be signed by the employee.

Condition:
This program uses employee time sheets and periodic time certifications to account for salaries and wages charged to the program. We noted that salaries charged to the program were not supported by time sheets or periodic time certifications; and salaries charged to the program were not consistent with time reported on employee time sheets.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Questioned Costs:
$40,566, represents salaries and related fringe benefits not supported with time sheets or periodic certifications.

Context:
There were five employees working on this grant and allowable costs issues relating to salary charges were noted for four of the five employees.

- Employee #1: The salary for this employee whose salary is budgeted and charged 100% to the grant had time sheets showing a 75/25 percent of reported time split between the Supportive Housing Program and other homeless grant programs. When the employee worked on other grants during the course of the year the employee's time was continuously charged 100 percent to the Supportive Housing Program.
- Employee #2: There were no time sheets for four months of salary charged to this program. For this same employee, we noted time certifications for three different time periods signed by the supervisor on the same date during the 12th period of the fiscal year.
- Employee #3: There were no time sheets supporting 60 percent of the employee time charged to the program.
- Employee #4: We noted that 40 percent of the employee salary was charged as "match" expenditure for the Supportive Housing Program, whereas the employee time sheet supported a "match" salary of 30 percent.

Effect:
The lack of supporting documentation of salaries charged to the program causes the program to be in noncompliance of specific grant conditions required by the federal agency, which could potentially lead to loss or return of funding for the program.

Cause:
Lack of effective management emphasis on the proper reporting of employee time charged to the program as evidenced by time sheets and/or periodic certifications. Additionally, internal controls were not operating effectively to ensure that time as recorded on time sheets was processed and charged against the program consistent with the time sheet.

Recommendation:
We recommend Supportive Housing Program management place greater emphasis on proper reporting and documentation of employee time and ensure the correct amount of salaries expense is charged to the program. Additionally, we recommend that stronger internal controls be put in place to make certain supervisory review of time sheets or periodic certifications is performed timely.

Views of responsible officials and planned corrective actions:
The Department of Community Initiatives (DCI) implemented a time sheet process on October 1, 2010 to correct this problem. Included in that process is the department's fiscal responsibilities of preparing journal entries to capture the employees actual time spent working on each program based on their time sheets.

Implementation Date:
October 1, 2010

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Responsible Person:
Gloria Hurtado, Director
Department of Community Initiatives

Finding: 2010 – 04
Eligibility

CFDA #14.235 - Supportive Housing Program
Award Number - TX59B800, TX 59B900
Award Years – 2008/2009
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through Entity – N/A

Type of Finding - Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
Under the Supportive Housing Program (SHP), the permanent housing for persons with disabilities component may only accept homeless persons with a qualifying disability and their families. In addition to obtaining evidence to substantiate the homeless condition as found in section 103 of the McKinney-Vento Act and referenced in regulations at 24CFR 583.5, organizations administering permanent funded housing must maintain evidence of disability status for their clients. As provided in SHP Desk guide Section B, according to the McKinney-Vento Act (Section 11382), the term "disability" means:

A. A disability as defined in Section 223 of the Social Security Act (42 U.S.C. 423);
B. To be determined to have, pursuant to regulations issued by the Secretary, a physical, mental, or emotional impairment which:
   1. is expected to be of long-continued and indefinite duration;
   2. substantially impedes an individual's ability to live independently; and
   3. of a nature that could be improved by more suitable housing conditions (e.g. a substance abuse disorder if the person's impairment could be improved by more suitable housing conditions);
C. A development disability as defined in Section 102 of the Developmental Disabilities Assistance and Bill of Rights Act of 2000; or
D. The disease of acquired immunodeficiency syndrome (AIDS) or conditions arising from the etiologic agency for acquired immunodeficiency syndrome.

The grantee or project must have written verification from a state licensed qualified source that the person has such a disability. Qualified sources include medical services providers, certified abuse counselors, physicians or treating health care provider as stated in the Social Security Act (42 U.S.C. Section 423).

Condition:
The City administers the Dwyer Permanent Housing Woodhill Projects that houses sixteen families in San Antonio Housing Authority (SAHA) managed apartments. As of August 2009, this housing program transitioned from "transitional housing" to "permanent housing", as such it is only allowed to accept homeless persons with a qualifying disability and their families. It was noted that documentation of disabilities for several participants were inadequate, bringing into question their eligibility for permanent housing under SHP.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Questioned Costs:
Not applicable

Context:
Four of the current sixteen residents in the Dwyer Permanent Housing Woodhill Project did not have adequate documentation to satisfy the disability requirement as outlined by explicit HUD guidelines.

Cause:
The City lacked clear guidelines and procedures for establishing eligibility determinations for the Dwyer Housing Project when it transitioned from transitional housing to permanent housing, which requires more extensive supporting documentation for the eligibility requirements.

Effect:
The City's lack of adequately documenting eligibility for permanent homeless housing may cause the City to be in noncompliance with the grant agreement, which could potentially lead to loss or return of funding.

Recommendation:
The City should increase training and strengthen supervisory review procedures to assure that the eligibility requirements for permanent supportive housing are met and evidence of disability status for clients in the program is maintained. This can be accomplished by creating a checklist that lists the appropriate documents to obtain from qualified sources, as defined in the grant guidelines.

Views of responsible officials and planned corrective actions:
DCI has reviewed the requirements and has strengthened the documentation requirements from an authorized source that demonstrates the client's disability. Each file has been reviewed and all clients have been determined as eligible for this program. Enhanced disability documentation has already been submitted from appropriate sources and is included in the client's file. DCI has provided training and a tool that will be completed prior to a potential client entering the program.

Implementation Date:
February 28, 2011

Responsible Person:
Gloria Hurtado, Director
Department of Community Initiatives

Finding: 2010 – 05
Subrecipient Monitoring

CFDA #14.235 - Supportive Housing Program
Award Number - TX59B900
Award Year - 2009
Federal Agency - U.S. Department of Housing and Urban Development (HUD)
Pass-through Entity - N/A

Type of Finding – Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
Requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)) and OMB Circular A-133. Subrecipient monitoring

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

requirements established in the fore mentioned include the responsibility for the pass-through entity to: (i) ensure subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (ii) issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (iii) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits the pass-through entity shall take appropriate action using sanctions.

Condition:
There was no evidence verifying that the program had in place practices and procedures for reviewing subrecipient audit reports to: (i) assure that required audits are performed; (ii) issue any management decision on audit findings; (iii) ensure that subrecipient takes timely and appropriate action on all audit findings.

Questioned Costs:
Not applicable

Context:
A review of subrecipients audit reports on file revealed no evidence that management was reviewing subrecipient audit reports. There were five subrecipient organizations managing fourteen Supportive Housing Program grant awards that met the OMB Circular A-133 audit requirement. Management advised that there was no established practice for reviewing subrecipient audit reports for relevant audit findings; the past history of lack of financial problems for organizations renewing grants was relied upon. Audit reports received from subrecipients were filed in the subrecipient notebook without management review.

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

Cause:
Failure of the program to implement procedures and practices to ensure compliance with the specific subrecipient monitoring requirements as outlined in OMB Circular A-133.

Recommendation:
We recommend that the program establish practices and procedures for monitoring subrecipient as it pertains to subrecipient audits to ensure: (i) subrecipient meets the audit requirements of OMB Circular A-133; (ii) a management decision is issued on subrecipient audit findings within 6 months after receipt of the subrecipient audit report; and (iii) the recipient takes timely and corrective action on all audit findings.

Views of responsible officials and planned corrective actions:
DCI will enhance its procedures to ensure subrecipient's audit reports are appropriately reviewed and meet applicable reporting standards. Supervisor oversight of the documentation will be implemented. Procedures will be included in an updated department directive to include corrective actions if issues are noted. Staff will be trained on their responsibilities and required documentation that must be included in the subrecipient's notebook.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Implementation Date:
June 30, 2011

Responsible Person:
Gloria Hurtado, Director
Department of Community Initiatives

Finding: 2010 - 06
Subrecipient Monitoring

CFDA #14.253 - Community Development Block Grants Cluster
Award Number - B-09-MY-480508
Award Year - 2009/2010
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of Finding - Significant Deficiency and Noncompliance

Criteria or Specific Requirement:
Pass through entities are responsible for Contractor Registration–identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information. (Section 1512(h) of American Recovery and Reinvestment Act (ARRA), and 2 CFR section 176.50(c))

Condition:
It was noted that the City did not review whether subrecipients receiving ARRA funding had current CCR registrations or ensure that the subrecipients were updating information as necessary.

Questioned Costs:
$502,326, amount of funds awarded to subrecipients not registered.

Context:
The information related to the ARRA requirements was not identified for the subrecipients of this program. Out of eight tested, three subrecipients were not CCR registered and two subrecipients did not have active CCR registrations.

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

Cause:
The department did not follow up to ensure respective subrecipients had the necessary registrations.

Recommendation:
We recommend that the City notify the noncompliant subrecipients of the requirement to register in the Central Contractor Registration and obtain supporting documentation evidencing their registration. Going forward, we recommend that as part of the contracting process with the subreipient that the subrecipeint provide a copy of the registration with the signed contract.

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Views of responsible officials and planned corrective actions:
GMA has notified all non compliant subrecipients of the requirement to register in the Central Contractor Registration and has received evidence documenting their registration or pending registration status. In the future, to ensure first tier subrecipients have registered in the Central Contractor Registration Database, GMA will require documentation of registration prior to entering into a contractual obligation.

Implementation Date
February 28, 2011

Responsible Person:
Gloria Hurtado, Director
Department of Community Initiatives

Finding: 2010 - 07
Period of Availability

CFDA #14.257 - ARRA – Homelessness Prevention and Rapid Re-Housing Program (HPRP)
Award Number - S09-48-MY-48-0508
Award Year – July 15, 2009 – July 15, 2012
Federal Agency – U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of Finding – Significant Deficiency

Criteria or Specific Requirement:
Section V.A.1 of the HUD *Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009,* requires grantees to "award or enter into legally binding grant agreements with all subgrantees by September 30, 2009." Grantees must select all subgrantees and obligate all funds to them by September 30, 2009.

Condition:
We noted the City did not obligate the full amount of awards to subgrantees prior to September 30, 2009.

Questioned Costs:
Not applicable

Context:
For the twelve subrecipient awards reviewed one of the twelve agreements was awarded after September 30, 2009. Additionally, all twelve sub-agreements did not obligate the full amount of the award as of the September 30, 2009 deadline. Per review of signed sub-award contracts, an initial portion of the designated funds for each subgrantee were obligated at the award date, with remaining funds reserved to be awarded subsequently in years two and three of the grant. In addition, grant contracts were amended subsequently throughout the year to increase funding to each subgrantee as needed.

Effect:
The City not obligating all awards prior to the deadline delays access to funds and restricts subgrantees

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

from providing assistance to rapidly re-house persons who are homeless or about to be homeless as soon as possible, as required by the Recovery Act.

Cause:
Department personnel appeared to be unaware of HUD funding requirements.

Recommendation:
We recommend that the City consider establishing a checklist that summarizes key provisions of grants, particularly new grants, to aid in the establishment of proper procedures and controls to ensure compliance.

Views of responsible officials and planned corrective actions:
DCI staff interpreted the HPRP Notice to require that Subgrantees be identified and contracts be executed by September 30, 2009, and this was done with the exception of one Subgrantee that was not operational at the time the contracts were awarded. The requirement to obligate 100% of the funds by September 30, 2009 was not clearly written in the HPRP Notice and DCI staff moved forward with contract execution under the impression that the process was in compliance with the HPRP Notice.

In August 2010, contract renewals were executed for all Subgrantees and all funds were allocated at this time. DCI will continue to monitor performance to determine if reallocations are required. The concern that DCI's contracting process "restricts sub grantees from providing assistance to rapidly re-house persons" has not proven to be true as renewal contracts were in place so as to avoid any interruption in service and reimbursement, and DCI is on track to meet the 60% spending requirement several months ahead of schedule.

Implementation Date
August 31, 2010

Responsible Person:
Gloria Hurtado, Director
Department of Community Initiatives

Finding: 2010 - 08
Special Tests and Provisions for Awards with ARRA Funding – Subrecipient Monitoring

CFDA #14.253 - ARRA – Community Development Block Grants Cluster
Award Number - B09MY480508
Award Year – July 1, 2009 – September 30, 2010
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through Entity – N/A

CFDA #14.257 - ARRA – Homelessness Prevention and Rapid Re-Housing Program
Award Number - S09-48-MY-48-0508
Award Year – October 1, 2009 – September 30, 2012
Federal Agency - U.S. Department of Housing and Urban Development
Pass-through Entity - N/A

CFDA #16.804 - ARRA – Edward Bryne Memorial Justice Assistance Grant Program/Grants to Units of Local Governments
Award Number - 2009SBB92934

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

Award Year – July 1, 2009 – September 30, 2010
Federal Agency - U.S. Department of Justice
Pass-through Entity - N/A

CFDA #81.042 - ARRA -Weatherization Assistance for Low Income People
Award Number – 16090000751
Award Year – September 1, 2009 – August 31, 2011
Federal Agency - U.S. Department of Energy
Pass-through Entity - Texas Department of Housing and Community Affairs

CFDA #93.708 - ARRA – Head Start Cluster
Award Number - 06SE0107/01
Award Year – July 1, 2009 – September 30, 2010
Federal Agency - U.S. Department of Health and Human Services
Pass-through Entity - N/A

CFDA #93.710 - ARRA - Community Services Block Grant Cluster
Award Number – 11090000561
Award Year – July 1, 2009 – September 30, 2010
Federal Agency - U.S. Department of Health and Human Services
Pass-through Entity - Texas Department of Housing and Community Affairs

CFDA #93.713 - ARRA - Child Care and Development Fund Cluster
Award Number - CCS2008001
Award Year – July 1, 2009 – September 30, 2010
Federal Agency - U.S. Department of Health and Human Services
Pass-through entity - Alamo Workforce Development Inc.

Type of Finding - Material Weakness and Material Noncompliance

Criteria or Specific Requirement:
Title 2 CFR Subpart C Sec. 176.210 indicates, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

Condition:
We noted the City was not following the provisions of identifying to subrecipients the Federal Award number and CFDA number at the time of disbursement for Recovery Act funds.

Questioned Costs:
Not applicable

Context:
Out of the disbursements to subrecipients judgmentally selected for testing, the City did not provide the Federal Award number and CFDA number to the subrecipients upon disbursement of ARRA funds for any of the disbursements as follows:

- Twenty five disbursements for Community Development Block Grant (total population: 46)

Schedule of Findings and Questioned Costs
Federal Grants - Continued
Year-Ended September 30, 2010

- Twenty five disbursements for Homelessness Prevention and Rapid Re-Housing Grant (total population: 138)
- Five disbursements for the Justice Assistance Grant (total population: 5)
- Ten disbursements for Weatherization Assistance Program (total population: 14)
- Ten disbursements for Head Start (total population: 59)
- Five disbursements for the Community Services Block Grant (total population: 132)
- Sixteen disbursements for the Child Care and Development Fund (total population: 16)

Effect:
The City's lack of compliance to inform the subrecipients of the Federal award number and CFDA number each time there is a disbursement of ARRA funds causes the City to be in noncompliance with specific grant conditions required by the federal agencies, which could potentially lead to loss or return of funding.

Cause:
Staff appears to be unaware of the specific subrecipient monitoring requirements as outlined for ARRA awards.

Recommendation:
We recommend that the City establish appropriate procedures to inform the subrecipients of the Federal award number and CFDA number each time there is a disbursement of funds to ensure that audit requirements are met. This can be accomplished by either including a notation on the check or a transmittal letter with the check.

Views of responsible officials and planned corrective actions:
Due to the City's central processing of disbursements in Finance - Accounts Payable, and its combining of invoices for vendor payments, the City is unable to cost effectively notate on the check or provide a transmittal letter with the check indicating how much of the proceeds relates to a specific ARRA grant. As an alternative procedure, to still ensure that subrecipients are receiving proper notification regarding ARRA receipts, the City has implemented a process whereby the departments will notify the subrecipients when the invoices are submitted to Finance - Accounts Payable for payment of the invoice number, and amount being reimbursed that correlates to ARRA funding. These communications will be made via mail/email and copies retained in the subrecipient's files.

Implementation Date:
January 1, 2011

Responsible Persons:
William McManus, Chief of Police
Police Department

W. Laurence Doxsey, Director
Office of Environmental Policy

Gloria Hurtado, Director
Department of Community Initiatives

Nina Nixon-Mendez, Grants Administrator
Grants Monitoring and Administration

City of San Antonio, Texas

Status of Prior Year Findings

Federal

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Finding: 2009-01
Review and Oversight
Type of Finding – Significant Deficiency

Condition:
We noted that there was a certain lack of sufficient review of accounting transactions, reconciliations and year-end account analyses in many areas of the accounting function. Accounting tasks such as reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data. We believe that some of the contributing factors to the deficiencies mentioned include the continued need for well-defined accounting policies and adherence by departments to the policies and procedures that have been established as well as a continued focus on review procedures. Specific matters noted through the course of our audit include the following:

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

Recommendation:
We recognize as it relates to capital assets and effective interest calculations, the City implemented certain corrective actions to address previously identified issues. We further recognize that over the past several years, the City has made significant strides in improving the internal control environment of the City. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the continued establishment of written and executed policies and procedures at all levels. Furthermore, we recommend that the City continue to provide ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Status:
Corrected

Finance has expanded its review process to encompass more detailed reviews of key transactions prepared within the department (e.g. depreciation expense, debt amortization schedules, receivable write-offs and allowance calculation, etc.) to include a combination of Financial Reporting Managers, Finance Accounting Administrators and the Assistant Director of Finance over Accounting. The Compliance and Resolution Division within Finance has also been tasked to assist in reviewing City departments' compliance with Administrative Directives and key areas noted by Finance. We will continue to refine and expand on other areas for review as resources or need warrants.

Over the course of fiscal year 2010, Finance provided training on eleven new/revised Administrative Directives to Department Fiscal Administrators (DFAs). Finance additionally held its annual year-end work session with the DFAs to identify transactions and tasks needed to be done in order to properly close out the fiscal year. We will continue to hold annual refresher courses for new and existing fiscal employees.

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

Finding: 2009-02
Subrecipient Monitoring

CFDA #14.218 – Community Development Block Grants/Entitlement Grants
Award year – 2008/2009
Award number – Various
Federal agency – U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of finding – Significant Deficiency and Noncompliance

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

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

Status:
Corrected

Department program analyst constantly documents reviews of the programs for which they are responsible. The analyst's review notes are used by the monitor staff to conduct site visits that concentrate on issues identified by the analyst. An annual plan ensures review of all projects by the monitoring staff to ensure compliance with this requirement.

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

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

Finding: 2009-03
Special Tests and Provisions: Rent Assessment

CFDA #14.235 – Supportive Housing Program
Award year – 2008/2009
Award number – Various
Federal agency – U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of finding – Significant Deficiency

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

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

Status:
Corrected

DCI developed and implemented a procedure that addresses the appropriate use of templates and employee responsibilities regarding the rental calculation worksheet. DCI staff has been trained and acknowledged the receipt of training. Supervisors review the accuracy of the work performed and verifies the accuracy of the rent calculation worksheets.

Responsible Person
Cindy Schoenmakers, Interim Director
Department of Community Initiatives

Finding: 2009-04
Special Tests and Provisions: ARRA Funding

CFDA #16.804 – ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
Award year – 2009
Award number – 2009-SB-B9-2934
Federal agency – U.S. Department of Justice
Pass-through entity – N/A

Type of finding – Control Deficiency and Noncompliance

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Condition:
It was noted that the subrecipients were not informed to record and report funds separately to properly identify ARRA funds on their SEFA and SF-SAC nor were they provided the CFDA number for ARRA funds.

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

Status:
Corrected

Grant management and sub-recipient monitoring and site visits are conducted using the checklist provided in the Grants AD 8.10. Grant compliance and sub-recipient monitoring is documented on the checklist. On April 22, 2010, all subrecipients were notified in writing of the requirement to separately and properly identified ARRA funds, and the same correspondence provided them with the CFDA number for the ARRA fund. Monitoring visits were completed with each subrecipient during the month of June to follow up on the notification and ensure compliance.

Responsible Person
William McManus, Chief of Police
Police Department

Finding: 2009-05
Davis-Bacon

CFDA #20.106 – Airport Improvement Program
Award year – Multi-year
Award number – Various
Federal agency – U.S. Department of Transportation
Pass-through entity – N/A

Type of finding – Significant Deficiency and Noncompliance

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

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

Status:
Corrected

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

The Labor Compliance Office within the CIMS department was tasked with the development of the risk analysis, methodology, and implementation process. The Compliance Division manager and CIMS Executive management remained in constant communication about the progress of the task as it was a critical issue based on prior year findings. An analyst from CIMS' Director's Office has been assigned to finalize the Labor Compliance Office Policy and Procedures Manual (which will include the risk analysis and methodology) by March 30, 2011. The Compliance Division Manager will ensure the procedures will be implemented immediately. The Labor Compliance Office Supervisor has developed a monthly prospective site visit plan beginning March 1, 2011.

CIMS has additionally implemented the use of a Labor Compliance Electronic Certified Payroll System (LCPtracker). LCPtracker is a web-based software developed to collect, verify, and manage contractor and subcontractor prevailing wage certified payrolls and related labor compliance documentation. Since LCPTracker is web-based, it reduces the man hours needed to manually review paper certified payroll records and is accessible by contractors/subcontractors 24 hours a day, 7 days a week.

All Aviation grant funded projects had site visits and were in compliance with grant requirements.

Responsible Persons
Frank Miller, Director
Aviation Department

Michael S. Frisbie, Director
Capital Improvements Management Services

Finding: 2009-06
Special Tests and Provisions: ARRA Funding

CFDA #93.575, 93.956, 93.713 - Child Care and Development Fund Cluster
Award year – 2009
Award number – CCS2008001
Federal agency – U.S. Department of Health and Human Services
Pass-through entity – Alamo Workforce Development, Inc.

Type of finding – Control Deficiency and Noncompliance

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

Recommendation:
We recommend that the City establish the appropriate procedures to ensure that ARRA requirements are appropriately communicated to the subrecipient either through a contract or separate communications.

Status:
Corrected

Letters notifying all subrecipients and delegate agencies of these requirements were sent on April 26, 2010. In addition, all future contracts will include the verbiage required by the grant award.

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Responsible Person
Cindy Schoenmakers, Interim Director
Department of Community Initiatives

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

Condition:
During our review of access to critical systems or applications, we noted the following:

- *New user Access:* A number of new user access requests lacked proper documentation supporting management's approval of requested access.
- *Removal of Access:* Numerous terminated employees had access to critical systems or their access was not removed in a timely manner after the notification of their termination.
- *Review of Access:* Access reviews are not being performed for the financially critical systems (Network, UNIX, SAP, and MARR).

Recommendations:
We recommend that access requests for new hires be approved by appropriate management, and for terminated employees that their access be disabled or removed from all critical systems in a timely manner. In either case, documentation should be maintained evidencing the request for granting access and removal of access. In addition, we recommend that the City implement a formal and periodic access review process which would serve as a detective control for monitoring potential segregation of duties issues and inappropriate access.

Status:
In Process

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

ITSD has also developed processes to ensure that terminated employees' access rights are disabled in a timely fashion. Through the City's Shared Services Project, Finance's Compliance and Resolution Division has been working on procedures to ensure those access rights are being provisioned, de-provisioned or changed timely. The City anticipates that these policies and procedures will be in place by September 20, 2011.

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

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

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

Condition:
We noted that there was a certain lack of sufficient review of accounting transactions, reconciliations and year-end account analyses in many areas of the accounting function. Accounting tasks such as reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data. Specific matters noted through the course of our audit include the following:

1. Capital Assets: During our testing of CIP projects we noted several projects that were completed and had not been accounted for as having been placed into service. Additionally, we identified projects that were included in CIP but should have been expensed as the items would not be deemed City assets. Further, when performing a reasonableness test on depreciation expense, we noted that different in-service dates were used in the computation from those reported by the respective departments, resulting in differences.
2. Accounts Payable: We noted several exceptions in which invoices relating to goods received or services performed prior to year-end were not recorded as payables in the proper period. As a result, a more comprehensive review was performed by finance personnel resulting in approximately a $9.0 million adjustment to increase payables as of year-end.
3. Debt Advance Refunding: Although the City complied with GASB No. 23: "*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*", we noted that the deferred charge on refunding calculation was not computed correctly.
4. Accrued Leave Calculation: Negative balances were discovered during the review of the paid leave accrual as a result of the SAP system conversion.

Recommendations:
We recognize as it relates to capital assets and accounts payable the City instituted certain corrective actions to address previously identified issues. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the establishment of written account analyses/process policies and procedures at all levels. Furthermore, we recommend that the City establish ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Status:
Corrected

Finance has expanded its review process to encompass more detailed reviews of key transactions prepared within the department (e.g. depreciation expense, debt amortization schedules, receivable write-offs and allowance calculation, etc.) to include a combination of Financial Reporting Managers, Finance Accounting Administrators and the Assistant Director of Finance over Accounting. The Compliance and Resolution Division within Finance has also been tasked to assist in reviewing City departments' compliance with Administrative Directives and key areas noted by Finance. We will continue to refine and expand on other areas for review as resources or need warrants.

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Over the course of fiscal year 2010, Finance provided training on eleven new/revised Administrative Directives to Department Fiscal Administrators (DFAs). Finance additionally held its annual year-end work session with the DFAs to identify transactions and tasks needed to be done in order to properly close out the fiscal year. We will continue to hold annual refresher courses for new and existing fiscal employees.

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

Finding: 2008-04
Davis-Bacon

CFDA #14.218 – Community Development Block Grants/ Entitlement Grants
Award year – 2007/2008
Award number – Various
Federal agency – U.S. Department of Housing and Urban Development
Pass-through entity – N/A

Type of finding – Significant Deficiency and Noncompliance

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

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

Status:
In Process

The Labor Compliance Office within the CIMS department was tasked with the development of the risk analysis, methodology, and implementation process. The Compliance Division manager and CIMS Executive management remained in constant communication about the progress of the task as it was a critical issue based on prior year findings. An analyst from CIMS' Director's Office has been assigned to finalize the Labor Compliance Office Policy and Procedures Manual (which will include the risk analysis and methodology) by March 30, 2011. The Compliance Division Manager will ensure the procedures will be implemented immediately. The Labor Compliance Office Supervisor has developed a monthly prospective site visit plan beginning March 1, 2011.

CIMS has additionally implemented the use of a Labor Compliance Electronic Certified Payroll System (LCPtracker). LCPtracker is a web-based software developed to collect, verify, and manage contractor and subcontractor prevailing wage certified payrolls and related labor compliance documentation. Since LCPTracker is web-based, it reduces the man hours needed to manually review paper certified payroll records and is accessible by contractors/subcontractors 24 hours a day, 7 days a week.

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

Summary Status of Prior Year Findings
Federal Grants
Year-Ended September 30, 2010

Mike Frisbie, Director
Capital Improvements Management Services

Finding: 2008-06
Davis-Bacon

CFDA #20.106 – Airport Improvement Program
Award year – Multi-year
Award number – Various
Federal agency – U.S. Department of Transportation
Pass-through entity – N/A

Type of finding – Significant Deficiency and Noncompliance

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

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

Status:
Corrected

The Labor Compliance Office within the CIMS department was tasked with the development of the risk analysis, methodology, and implementation process. The Compliance Division manager and CIMS Executive management remained in constant communication about the progress of the task as it was a critical issue based on prior year findings. An analyst from CIMS' Director's Office has been assigned to finalize the Labor Compliance Office Policy and Procedures Manual (which will include the risk analysis and methodology) by March 30, 2011. The Compliance Division Manager will ensure the procedures will be implemented immediately. The Labor Compliance Office Supervisor has developed a monthly prospective site visit plan beginning March 1, 2011.

CIMS has additionally implemented the use of a Labor Compliance Electronic Certified Payroll System (LCPtracker). LCPtracker is a web-based software developed to collect, verify, and manage contractor and subcontractor prevailing wage certified payrolls and related labor compliance documentation. Since LCPTracker is web-based, it reduces the man hours needed to manually review paper certified payroll records and is accessible by contractors/subcontractors 24 hours a day, 7 days a week.

All Aviation grant funded projects had site visits and were in compliance with grant requirements.

Responsible Persons
Frank Miller, Director
Aviation Department

Michael S. Frisbie, Director
Capital Improvements Management Services

City of San Antonio, Texas

State Section

City of San Antonio, Texas

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

Schedule of Expenditures of State Awards
Year-Ended September 30, 2010

STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM		GRANT NUMBER	CITY NUMBER	STATE EXPENDITURES
Texas Commission on Environmental Quality:				
Direct Programs:				
Air Monitors:	*			
Air Monitoring 2006-2008		582-7-72672	26-008045	$ 6,172
Air Monitoring 2009-2010		582-10-86408	26-00836004	288,308
Air Monitoring 2010-2011		582-10-86408	26-00836005	16,026
Air Monitors Lake Calaveras 2009-2010		582-6-72649	26-00836003	21,066
Air Monitors Lake Calaveras 2010-2011		582-11-86426	26-00836007	1,248
Air Monitoring in SA TCEQ PM 2.5 2008-2009		582-8-72698	26-008056	(4,532)
Air Monitoring in SA TCEQ PM 2.5 2009-2010		582-8-72698	26-00836001	62,628
Air Monitoring in SA TCEQ PM 2.5 2010-2011		582-8-72698	26-00836006	3,881
Total Air Monitors				$ 394,797
Texas Emission Reduction Plan:	*			
Texas Emission Reduction Plan 2007		582-7-708100333	26-008055	$ (173,223)
Texas Emission Reduction Plan 2008		582-9-904150013	26-00855005	755,160
Total Texas Emission Reduction Plan				$ 581,937
Pass Through - Alamo Area Council of Governments:				
Recycling and Green Waste Education Program:				
Recycling and Green Waste Education Program 2008		08-18-G09	26-008054	$ 26,178
Solid Waste Grant Projects:				
Community Outreach Program 2010		10-18-G06	26-00855007	$ 83,466
Total Texas Commission on Environmental Quality				$ 1,086,378
Texas State Library and Archives Commission:				
Direct Program:	*			
Lone Star Libraries Grant 2010		442-10213	26-01804010	$ 300,483
Total Texas State Library and Archives Commission				$ 300,483
Texas Commission on the Arts:				
Direct Program:				
TCA Subgranting Grant Program:				
TCA Subgranting Grant 2009-2010		09-30270	26-00528003	$ 52,500
Arts Respond Performance Support Grant:				
Summer Reading Program 2010		N/A	26-00504001	$ 1,386
Total Texas Commission on the Arts				$ 53,886
Texas Department of State Health Services:				
Direct Programs:				
HIV Surveillance Program:				
HIV Surveillance Program 2010		2010-031766-001	26-01636038	$ 150,311
HIV Surveillance Program 2011		2011-035330-001	26-01636060	7,992
Total HIV Surveillance Program				$ 158,303
Infectious Disease Program:				
Infectious Disease 2009		2009-030831-001	26-016120	$ (308)
Flu Surveillance Program 2010		2010-031533-001	26-01636042	4,928
Total Infectious Disease Program				$ 4,620
Governor's Advisory Council on Physical Program:				
Mayor's Fitness Council		2010-034705-001	26-01636053	$ 15,000
Milk Sample Lab Tests:				
Milk Group - 2010		2010-031641-001	26-01636039	$ 53,792
Milk Group - 2011		2011-035201-001	26-01636064	4,166
Milk Group		2010-034934-001	26-02236014	73,098
Total Milk Sample Lab Tests				$ 131,056
Obesity Prevention Program:				
Obesity Prevention 2010		2010-034870-001	26-02236013	$ 5,332
STRAC Grant Project:				
EMS Trauma System		N/A	26-016059	$ 83
STRAC Grant Project FY 2009		N/A	26-01620002	30,936
STRAC Grant Project FY 2010		N/A	26-01620003	21,778
Total STRAC Grant Project				$ 52,797
Subtotal Texas Department of State Health Services				$ 367,108

See accompanying Notes to the Schedule of Expenditures of State Awards

Amounts are expressed in thousands

Schedule of Expenditures of State Awards
Year-Ended September 30, 2010

STATE GRANTOR/PASS THROUGH GRANTOR/ STATE PROGRAM		GRANT NUMBER	CITY NUMBER	STATE EXPENDITURES
Texas Department of State Health Services (Continued):				
Direct Programs (Continued):				
TB Prevention and Control:				
TB Prevention and Control 2008-2009		2009-028363-001	26-016120	$ (1,024)
TB Prevention and Control 2009-2010		2010-032851-001	26-01636044	211,104
TB Prevention and Control 2010-2011		2011-032851-001	26-01636061	16,663
Total TB Prevention and Control				$ 226,743
Title V Family Planning:				
Title V Child Injury Prevention		2801280-LS	26-016087	$ 3,000
Title V Child Health Services 2011		2011-036946-001	26-01636059	840
Total Title V Family Planning				$ 3,840
Tobacco Prevention and Control Grant:	*			
Tobacco Community Coalition 2009		2009-029454-001	26-016120	$ 127
Tobacco Community Coalition 2010		2010-032777-001	26-01636043	771,771
Tobacco Community Coalition 2011		2011-036898-001	26-01636058	10,831
Total Tobacco Prevention and Control Grant				$ 782,729
Total Texas Department of State Health Services				$ 1,380,420
Texas Department of Transportation:				
Direct Programs:				
Intelligent Transportation System Grant:				
Intelligent Transportation System Grant		N/A	26-059214	$ (4,316)
Regional Auto Crimes Team:	*			
Regional Auto Crimes Team 2008-2009		SAT041006309	26-031018	$ 22,928
Regional Auto Crimes Team 2009-2010		SAT041006310	26-03117001	1,069,854
Regional Auto Crimes Team 2010-2011		SAT041006311	26-03117002	74,256
Total Regional Auto Crimes Team				$ 1,167,038
Total Texas Department of Transportation				$ 1,162,722
Texas Department of Housing and Community Affairs:				
Direct Program:				
National Foreclosure Mitigation Counseling 2009		N/A	26-06038004	$ 74,454
Total Texas Department of Housing and Community Affairs				$ 74,454
Texas Attorney General's Office:				
Direct Programs:				
State Confiscated Property:				
New State Account		N/A	29-038000	$ 709,763
Vice Seizures		N/A	29-040000	672,854
Total Texas Attorney General's Office				$ 1,382,617
Texas Parks and Wildlife Commission:				
Direct Programs:				
Local Park Grant Program :				
Voelker Park		55-003-001	26-05226001	$ 250,643
Total Texas Parks and Wildlife Commission:				$ 250,643
Office of the Governor:				
Direct Programs:				
Emergency Management Events from the Division of Emergency Management:				
TS Alex		N/A	26-05680008	$ 282,063
Total Office of the Governor				$ 282,063
TOTAL EXPENDITURES OF STATE AWARDS				$ 5,973,666

* Major Program

See accompanying Notes to the Schedule of Expenditures of State Awards

Amounts are expressed in thousands

Notes to the Schedule of Expenditures of State Awards

Year-Ended September 30, 2010

1. The accompanying schedule of expenditures of state awards includes the state grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular* ("Audit Circular"). The Audit Circular was issued under the authority of the Texas Government Code, Chapter 783, entitled Uniform Grant and Contract Management. This circular sets standards for obtaining consistency and uniformity among state agencies for the coordinated audit of local governments expending any state awards.

2. In fiscal year 2010, there were no state awards provided to subrecipients.

City of San Antonio, Texas

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the State of Texas Single Audit Circular

Grant Thornton

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

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March11, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, and San Antonio Housing Trust Finance Corporation blended component units, which represent 71%, 80% and 29%, respectively, of the assets, net assets/fund balances and revenues /additions of the aggregate remaining fund information. Other auditors also audited the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units, as described in our report on the City's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of SA Energy Acquisition Public Facilities Corporation, San Antonio Housing Trust Finance Corporation, and City Public Service of San Antonio audited by other auditors were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion.

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we have reported to management of the City in a separate letter dated March 11, 2011.

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

Grant Thornton LLP

Dallas, Texas
March 11, 2011

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

City of San Antonio, Texas

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the State of Texas Single Audit Circular

Grant Thornton

Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the *State of Texas Single Audit Circular*

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
www.GrantThornton.com

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

Compliance

We have audited the compliance of the City of San Antonio, Texas (the City) with the types of compliance requirements described in the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major state programs for the year ended September 30, 2010. The City's major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major state program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, we express no such opinion.

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Grant Thornton

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01, that we consider to be a significant deficiency in the City's internal control over compliance.

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

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

Grant Thornton LLP

Dallas, Texas
March 11, 2011

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

City of San Antonio, Texas

Schedule of Findings and Questioned Costs

State

Schedule of Findings and Questioned Costs
State Grants
Year-Ended September 30, 2010

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes __X__ No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes __X__ No

Noncompliance material to financial statements noted? _____ Yes __X__ No

State Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes __X__ No

Significant deficiencies identified that are not considered to be material weaknesses? __X__ Yes _____ No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in Accordance with the *State of Texas Single Audit Circular*? __X__ Yes _____ No

Identification of major programs:

Grant Numbers:	Name of State Program or Cluster:
582-7-727672, 582-10-86408, 582-6-72649 582-11-86426, 582-8-72698	Air Monitors
582-7-708100333, 582-9-904150013	Texas Emission Reduction Plan
442-10213	Lone Star Libraries Grant
2009-029454-001, 2010-032777-001, 2011-036898-001	Tobacco Prevention and Control Grant
SAT041006309, SAT041006310, SAT041006311	Regional Auto Crimes Team

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

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

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2010

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The results of our procedures disclosed no findings to be reported for the year ended September 30, 2010.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS

Finding: 2010 – 01
Allowable Costs

Program Title - Tobacco Community Coalition Program
Award Number - 2010-032777
Award Year – September 30, 2010
State Agency - Texas Department of State Health Services
Pass-through Entity - N/A

Type of Finding - Significant Deficiency

Criteria or Specific Requirement:
The guidelines from the Uniform Grant Management Standards state that "charges to state awards for salaries and wages, whether treated as direct or indirect costs will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit."

Furthermore, these standards state "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets those standards."

Condition:
It was noted that the City did not have adequate supporting documentation regarding salaries charged by the subrecipients.

Questioned Costs:
$71,041, which represents the payroll charges without supporting documentation.

Context:
It was noted that nine out of the twenty-five expenditure files judgmentally selected for testing, did not have adequate supporting documentation regarding salaries charged by the subrecipients. We noted that this was related to two subrecipients.

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

Cause:
One of the subrecipients in question was unable to provide this information due to an internal policy prohibiting them from providing personnel information to third parties.

Recommendation:
We recommend that the City ensure that sufficient documentation can be obtained from the subrecipient in order to comply with the programs expenditure requirements. The City should consider

Schedule of Findings and Questioned Costs
State Grants - Continued
Year-Ended September 30, 2010

meeting with subrecipient prior to contracting their services and explain requirements and expectations regarding documentation to ensure the subrecipient has no impediments from providing the required information.

Views of responsible officials and planned corrective actions:
The subrecipients are obligated to the City through formal agreements. Legal language in past agreements was not sufficiently descriptive or compelling to require submission of the details needed to adequately document personnel costs. The agreements associated with the documents reviewed during this audit expired on August 31, 2010. New agreements were instituted on September 1, 2010, which include the language and specifications needed to request adequate documentation from the subrecipients. Since the implementation of the new agreements, the program office within the department has received adequately detailed records of personnel time and costs.

Implementation Date:
September 1, 2010

Responsible Person:
Dr. John Nava, Interim Director
Health Department

City of San Antonio, Texas

Status of Prior Year Findings

State

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Finding: 2009-01
Review and Oversight
Type of Finding – Significant Deficiency

Condition and Context:
We noted that there was a certain lack of sufficient review of accounting transactions, reconciliations and year-end account analyses in many areas of the accounting function. Accounting tasks such as reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data. We believe that some of the contributing factors to the deficiencies mentioned include the continued need for well-defined accounting policies and adherence by departments to the policies and procedures that have been established as well as a continued focus on review procedures. Specific matters noted through the course of our audit include the following:

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

Recommendation:
We recognize as it relates to capital assets and effective interest calculations, the City implemented certain corrective actions to address previously identified issues. We further recognize that over the past several years, the City has made significant strides in improving the internal control environment of the City. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the continued establishment of written and executed policies and procedures at all levels. Furthermore, we recommend that the City continue to provide ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Status:
Corrected

Finance has expanded its review process to encompass more detailed reviews of key transactions prepared within the department (e.g. depreciation expense, debt amortization schedules, receivable write-offs and allowance calculation, etc.) to include a combination of Financial Reporting Managers, Finance Accounting Administrators and the Assistant Director of Finance over Accounting. The Compliance and Resolution Division within Finance has also been tasked to assist in reviewing City departments' compliance with Administrative Directives and key areas noted by Finance. We will continue to refine and expand on other areas for review as resources or need warrants.

Over the course of fiscal year 2010, Finance provided training on eleven new/revised Administrative Directives to Department Fiscal Administrators (DFAs). Finance additionally held its annual year-end work session with the DFAs to identify transactions and tasks needed to be done in order to properly close out the fiscal year. We will continue to hold annual refresher courses for new and existing fiscal employees.

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

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS

Finding: 2009-02
Allowable Costs, Cash Management, and Matching

Tobacco Prevention and Control
Award year – 2009
Award number – 2009-029454-001
State agency – Texas Department of State Health Services
Pass-through entity – N/A

Type of finding – Material Weakness

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

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

Status:
Corrected

The Health Department has implemented procedures for gathering data, receiving and evaluating monthly reports and has strengthened fiscal controls. Program staff attended training on compliance

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

supplements in OMB Circulars A-87 and A-133 and on preparing and using a Grants Administration Plan in October and November 2010.

Responsible Persons
Charlie Pruski, Interim Deputy Public Health Director
Health Department

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

Finding: 2009-03
Subrecipient Monitoring

Tobacco Prevention and Control
Award year – 2009
Award number – 2009-029454-001
State agency – Texas Department of State Health Services
Pass-through entity – N/A

Type of finding – Material Weakness and Material Noncompliance

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

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

Status:
Corrected

The Health Department has established and is using a checklist to conduct and document subrecipient monitoring visits twice a year. Additionally, a continuous dialogue has been established with the sub-recipients, and the Health Department has scheduled monitoring visits for all subrecipients. Furthermore, program staff attended training on compliance supplements in OMB Circulars A-87 and A-133 and on preparing and using a Grants Administration Plan in October and November 2010.

Responsible Persons
Charlie Pruski, Interim Deputy Public Health Director
San Antonio Metropolitan Health Department

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

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Finding: 2009-04
Performance Reporting

Tobacco Prevention and Control
Award year – 2009
Award number – 2009-029454-001
State agency – Texas Department of State Health Services
Pass-through entity – N/A

Type of finding – Significant Deficiency

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

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

Status:
Corrected

The Health Department has implemented electronic signatures to document program and/or director review of performance reports.

Responsible Person
Charlie Pruski, Interim Deputy Public Health Director
San Antonio Metropolitan Health Department

Finding: 2009-05
Allowable Costs

Regional Auto Crimes Team
Award year – 2008-2009
Award number – SAT041006309
State agency – Texas Department of Transportation
Pass-through entity – N/A

Type of finding – Significant Deficiency and Noncompliance

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

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

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Status:
Corrected

Journal entries were made to correct this error and funds have been returned to the State. Moving forward all expenses charged to the program will be monitored closely to prevent recurrence.

Responsible Person
William McManus, Chief of Police
Police Department

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

Condition:
During our review of access to critical systems or applications, we noted the following:

- *New user Access:* A number of new user access requests lacked proper documentation supporting management's approval of requested access.
- *Removal of Access:* Numerous terminated employees had access to critical systems or their access was not removed in a timely manner after the notification of their termination.
- *Review of Access:* Access reviews are not being performed for the financially critical systems (Network, UNIX, SAP, and MARR).

Recommendations:
We recommend that access requests for new hires be approved by appropriate management, and for terminated employees that their access be disabled or removed from all critical systems in a timely manner. In either case, documentation should be maintained evidencing the request for granting access and removal of access. In addition, we recommend that the City implement a formal and periodic access review process which would serve as a detective control for monitoring potential segregation of duties issues and inappropriate access.

Status:
In Process

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

ITSD has also developed processes to ensure that terminated employees' access rights are disabled in a timely fashion. Through the City's Shared Services Project, Finance's Compliance and Resolution Division has been working on procedures to ensure those access rights are being provisioned, de-provisioned or changed timely. The City anticipates that these policies and procedures will be in place by September 20, 2011.

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

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

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

Condition:
We noted that there was a certain lack of sufficient review of accounting transactions, reconciliations and year-end account analyses in many areas of the accounting function. Accounting tasks such as reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data. Specific matters noted through the course of our audit include the following:

1. Capital Assets: During our testing of CIP projects we noted several projects that were completed and had not been accounted for as having been placed into service. Additionally, we identified projects that were included in CIP but should have been expensed as the items would not be deemed City assets. Further, when performing a reasonableness test on depreciation expense, we noted that different in-service dates were used in the computation from those reported by the respective departments, resulting in differences.
2. Accounts Payable: We noted several exceptions in which invoices relating to goods received or services performed prior to year-end were not recorded as payables in the proper period. As a result, a more comprehensive review was performed by finance personnel resulting in approximately a $9.0 million adjustment to increase payables as of year-end.
3. Debt Advance Refunding: Although the City complied with GASB No. 23: "*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*", we noted that the deferred charge on refunding calculation was not computed correctly.
4. Accrued Leave Calculation: Negative balances were discovered during the review of the paid leave accrual as a result of the SAP system conversion.

Recommendations:
We recognize as it relates to capital assets and accounts payable the City instituted certain corrective actions to address previously identified issues. As the City continues to enhance its internal controls, we recommend that the City establish a more thorough review process in addition to the establishment of written account analyses/process policies and procedures at all levels. Furthermore, we recommend that the City establish ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Status:
Corrected

Finance has expanded its review process to encompass more detailed reviews of key transactions prepared within the department (e.g. depreciation expense, debt amortization schedules, receivable write-offs and allowance calculation, etc.) to include a combination of Financial Reporting Managers, Finance Accounting Administrators and the Assistant Director of Finance over Accounting. The Compliance and Resolution Division within Finance has also been tasked to assist in reviewing City departments' compliance with Administrative Directives and key areas noted by Finance. We will continue to refine and expand on other areas for review as resources or need warrants.

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Over the course of fiscal year 2010, Finance provided training on eleven new/revised Administrative Directives to Department Fiscal Administrators (DFAs). Finance additionally held its annual year-end work session with the DFAs to identify transactions and tasks needed to be done in order to properly close out the fiscal year. We will continue to hold annual refresher courses for new and existing fiscal employees.

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

Finding: 2008-05
Equipment and Real Property Management

State Confiscated Property
Award year – 2008
Award number – N/A
State agency – Texas Attorney General's Office
Pass-through entity – N/A

Type of finding – Material Weakness and Material Non-compliance

Condition:
During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

Recommendations:
We recommend that the City perform and adequately document the results of its physical inventory counts at least once every two years in accordance with the State of Texas Uniform Grants Management Standards. We also recommend that the City adequately document property records reconciliation from Police Department records to the City's SAP system.

Status:
Corrected

The finding has been corrected by conducting an inventory during fall 2010 and developing department policies and procedures for conducting, reporting and reconciling inventory. The City additionally trained on and issued Administrative Directive 8.7, Financial Management of Capital Assets and Tracked Property during Fiscal Year 2010.

Responsible Persons
William McManus, Chief of Police
Police Department

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

Finding: 2008-06
Equipment and Real Property Management

Regional Auto Crimes Team
Award years – 2007, 2008, and 2009

Summary Status of Prior Year Findings
State Grants
Year-Ended September 30, 2010

Award numbers – SAT041006307, SAT041006308, and SAT041006309
State agency – Texas Department of Transportation
Pass-through entity – N/A

Type of finding – Material Weakness and Material Non-compliance

Condition:
During our review, the physical inventory reconciliation to the property records was not completed during the past two years.

Recommendations:
We recommend that the City perform physical inventory count and property records reconciliation at least once every two years in accordance with the State of Texas Uniform Grants Management Standards. We also recommend that the City adequately document the results of the physical inventory count and the property records reconciliation to provide evidence that the procedures were actually performed.

Status:
Corrected

The finding has been corrected by conducting an inventory during fall 2010 and developing department policies and procedures for conducting, reporting and reconciling inventory. The City additionally trained on and issued Administrative Directive 8.7, Financial Management of Capital Assets and Tracked Property during Fiscal Year 2010.

Responsible Persons
William McManus, Chief of Police
Police Department

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

CITY OF SAN ANTONIO, TEXAS