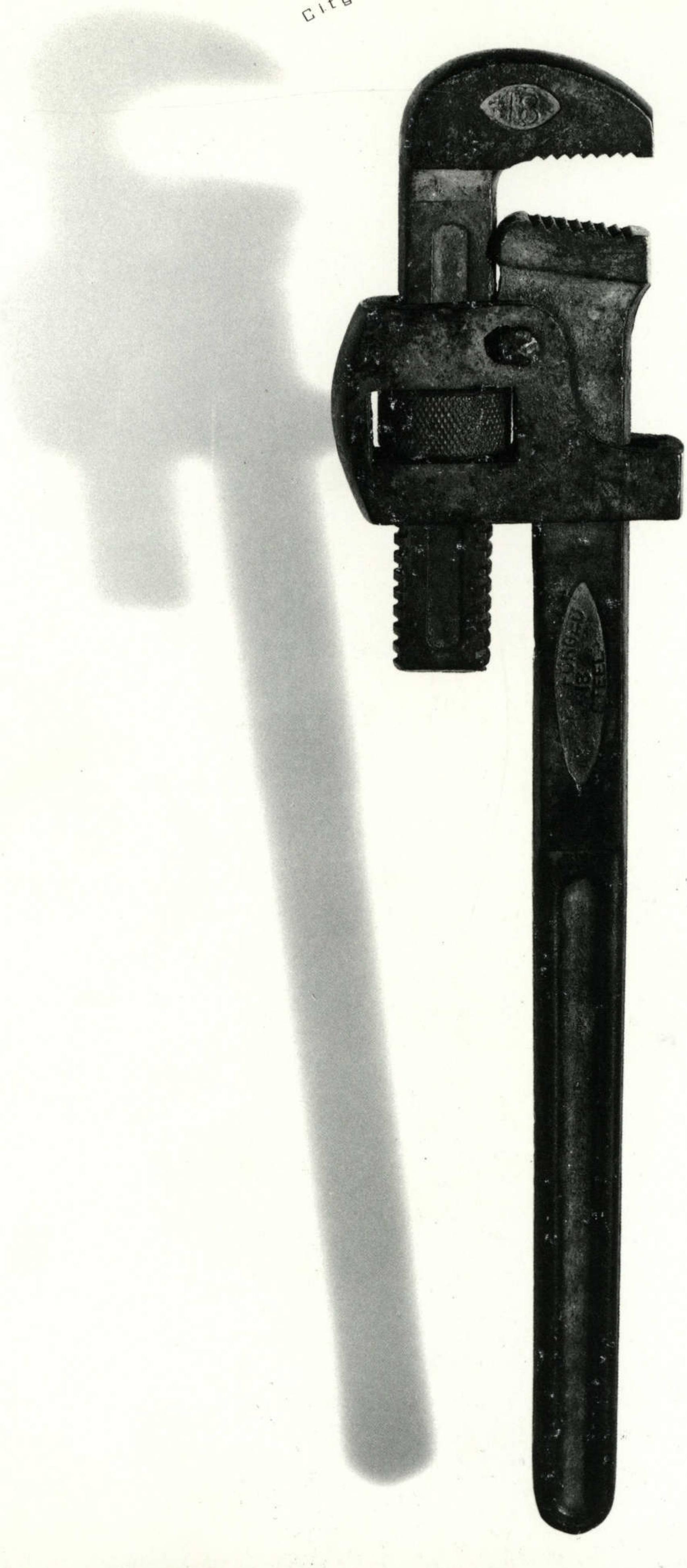
City Water Board of San Antonio



1990 ANNUAL REPORT

VIBRANT · CULTURAL RICH · PROGRESSIVE · METROPOLITAN

These are just a few words and phrases which come to mind when describing San Antonio. Another word would be "fortunate." Fortunate in that ever since the first few people settled in this area more than 300 years ago, water has been supplied by the Edwards Aquifer. Amazingly, this unique resource is still the only supply of water for the greater San Antonio area and four other counties in the region consisting of a million and a half people.

The City Water Board, San Antonio's municipally-owned water utility, pumps and delivers that fresh Edwards water to approximately 800,000 residents of the nation's tenth largest city.

Although the Edwards has been a steady water resource for San Antonio, growth projections for the next 50 years show that the demand for water will double. Those heavy requirements prompted the City Water Board to implement a plan of action which will diversify its sources of water and reduce reliance on the Edwards.

Surface water is the newest component in San Antonio's water plan and the City Water Board turned the first shovel full of dirt in early December as construction of Lake Applewhite began. The reservoir will supplement CWB's production capacity by 25 percent while providing an average of 50 million gallons of water per day to customers.

Water conservation, wastewater reuse and a comprehensive management plan for the Edwards Aquifer comprise the other components of the diversification plan.

San Antonio continued its successes in 1990 and the City Water Board likewise aggressively put in place major building blocks over the past twelve months which will enhance service to customers now and provide a high-quality, stable and low-cost supply of water for future generations.

Lowell E Roberts

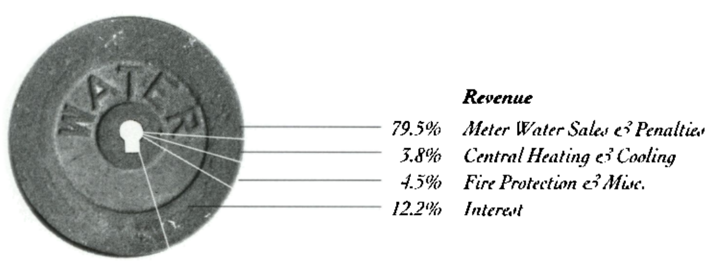
Lowell E. Roberts
General Manager

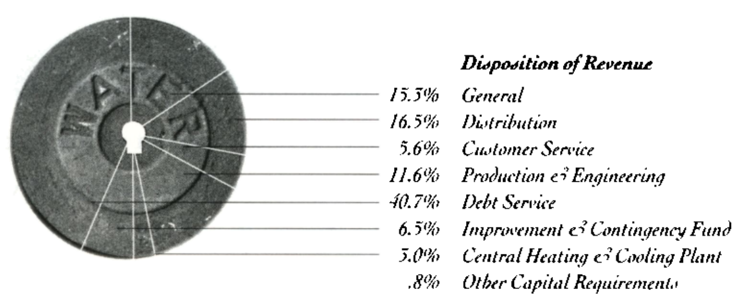
Nelda Weatherly

Nelda Weatherly
Chairman

HIGHLIGHTS FOR 1990

Financial		**1989**			**1990**
Revenue Decreased from	$	75,799,309	to	$	68,587,515
Operating Cost Decreased from	$	36,149,913	to	$	35,604,223
Contributions for Construction Decreased from	$	12,197,576	to	$	5,945,835
Municipal Equity Increased from	$	295,668,514	to	$	302,769,330
Debt Coverage Decreased from		1.72%	to		1.44%
Operating Cost per Water Customer Decreased from	$	150.64	to	$	145.70
Investment In Gross Utility Plant Increased from	$	2,230.66	to	$	2,369.68
Operating					
Miles of Main Increased from		3,458	to		3.494
Fire Hydrants in Service Increased from		16,458	to		16,686
New Services Installed Decreased from		1891	to		792
Number of Customers at Year-end Increased from		236,709	to		239,891
Number of Budgeted Employees Increased from		910	to		915
Unaccounted for Water Decreased from		8.0	to		7.9





Shaping the Future

Over the last several decades, experts have agreed that there is a limit to the amount of water that can be provided by the Edwards Aquifer, currently the only source of water for Bexar County where metropolitan San Antonio is located and four surrounding counties. With continued growth, the region has inched closer to taking out more water from the aquifer to serve its 1.6 million people than is recharged through natural and man-made means in an average year. The City Water Board alone pumped 55.5 billion gallons from the Edwards through 240,000 residential and commercial meters in 1990.

While the rest of the Edwards region has struggled to find mutual solutions to managing the aquifer, CWB moved positively over the past twelve months in implementing its water diversification plan. New water resources for San Antonio will help ease the trend toward overdrafting the Edwards and assure a stable supply of water for the future.

The surface water component of the diversification plan took shape last year as construction on the Applewhite Project began in December. Construction bids for the reservoir were accepted in September as the H.B. Zachry Company of San Antonio submitted the low bid of $37.3 million. Plans call for building of the dam and spillway and the realignment of a county road near the damsite to be completed by 1993. Subsequently, an average year of rain would fill the reservoir, testing of the treatment plant would then commence with full operation of the project expected in late 1995.

Engineering design for the Applewhite water treatment plant to be built approximately 100 acres north of the reservoir is near completion. The plant will produce 50 million gallons of water per day and can be expanded to 100 million gallons.

Applewhite Reservoir

3

To date approximately 2,500 acres of the acres needed for the entire Applewhite project have been purchased. The reservoir depth will average 18 feet and reach 71 feet at the damsite, supplying 48,000 acre feet of water yearly, or 25 percent of the City Water Board's annual needs. The recreational potential for Applewhite was also in the planning stages in 1990 as City Council requested CWB to prepare a recreation plan for the project.

A mitigation area of approximately 1,750 acres located near the juncture of the Medina and San Antonio Rivers will be set aside as a natural preserve for native species and will be managed as a recreational site.

Although Applewhite is a vital element of San Antonio's future, the project site also has been carefully studied through archeological exploration in 1990. Two teams of archeologists from Texas A & M University and Southern Methodist University coordinated archeological digs and historical documentation at the Applewhite site and have unveiled a glimpse of civilization dating back to hunters and gatherers living in the river valley almost 11,000 years ago. Archeology at Applewhite should be completed in 1993.

The importance of Applewhite to San Antonio's future economic growth was underscored as a group of citizens and civic leaders supporting the reservoir formed Water Now!, an educational outlet for the project. Through the circulation of printed and audiovisual materials and over 150 presentations made by volunteer speakers throughout the city, Water Now! made a significant impact on the focus of water issues currently facing San Antonio in addition to answering questions regarding Applewhite.

Fiesta Texas

Expanding Operations

Size and scope of City Water Board operations are no better illustrated than with the new Eastside Multi-Service Center. The 70,000 square-foot facility, located on 16 acres had previously housed a truck sales and maintenance center. It was totally redesigned to accommodate the Eastside Service Center, the new satellite Customer Service Center and Supply and Services. Interior and exterior renovation for the new facility began in late May and was completed for occupancy in September with work being accomplished almost entirely by City Water Board employees.

With almost triple the acreage and 25,000 additional square feet of interior space, the site was ideal for relocation of the Eastside Service Center which had occupied the same location near downtown for more than 50 years. A move was scheduled when final plans for the Alamodome, a convention and sports facility, included procuring the CWB property and old service center facilities.

The multi-service facility lives up to its name—administrative offices, dispatching, employee areas, security, training rooms, and the bacteriology lab are just a few units located within the main structure on the site. The new full-service satellite Customer Service Center, a first for CWB, provides a convenient alternative to a large segment of CWB customers. The supply storage area, with a ceiling height of over 28 feet, warehouses 2,755 line items ranging from ductile iron pipe to fire hydrants.

A 26,400 square foot, 30-bay vehicle maintenance annex makes it possible to service the entire City Water Board fleet and all machinery in one area. Four above ground and five below ground hydraulic lifts, two large six-way overhead cranes and an environmentally safe paint-spray booth complete the range of equipment needed to service heavy equipment as well as normal fleet maintenance of over 300 vehicles.

Eastside Multi-Service Center

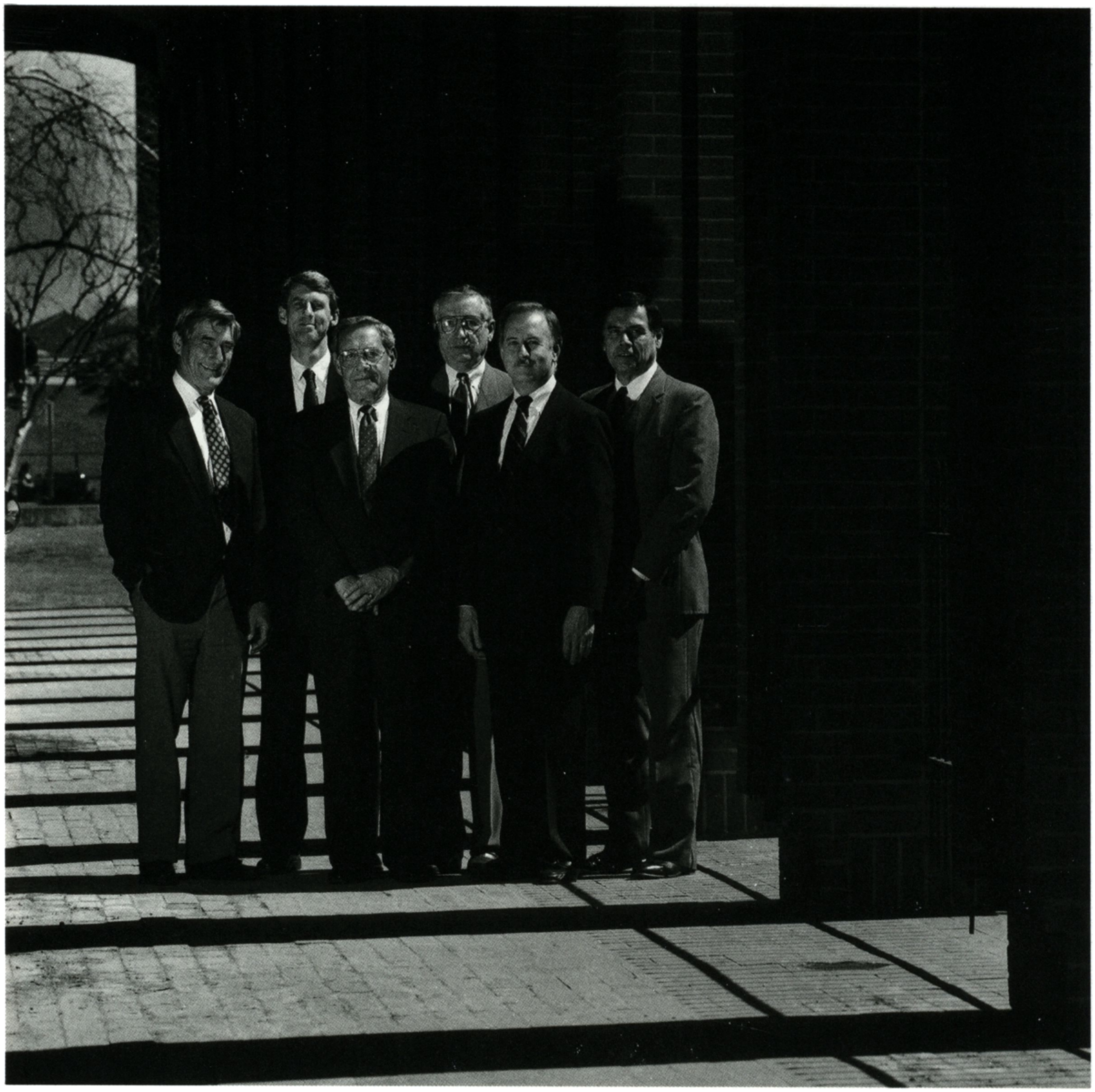
A meter testing shop with all-new equipment capable of calibrating up to 48 ⅝ inch meters and test tanks with a capacity to test meters ⅝ inch to 10 inches in size is also on site.

Although most of Texas has experienced decreases in new development and expansion projects in recent years, San Antonio proceeded with several major developments in 1990. The $40 million Tri-Party Transportation Improvements Project came to a close last year and enhanced the look of downtown San Antonio while improving mobility in the business and convention area in the central city. CWB's construction involvement in Tri-Party, which totaled $4.6 million, included installation of new mains and relocation of existing mains.

CWB purchased land in 1990 for a booster station and three million gallon reservoir to be erected for use by the La Cantera development, a 1,600-acre, $1 billion commercial and residential project. CWB also worked with developers of Fiesta Texas, a major music theme park and the focal point of the La Cantera project, on water distribution plans for the park. Construction of the Alamodome convention and sports facility also got underway. The City Water Board contracted with Alamodome developers to provide chilled water for cooling of the complex. A $3.5 million expansion of CWB's cooling plant will add a cooling tower, two 1,200 ton chillers and a supplementary ice storage system which will provide 7,000 tons of chilled water to the multi-use facility for each event.

To assure that City Water Board facilities are in place to meet growth in San Antonio, the utility updates its master plan every five years. The planning document evaluates the water production, distribution and storage facilities in place and provides a guideline for determining the system improvements needed to satisfy projected water requirements through the year 2015. The bulk of the work on the new master plan which is due in 1991 was accomplished this past year.

Heating – Cooling Plant



Management Staff

Donald E. Pollard, Operations
Ralph E. Huber, Comptroller
Lowell E. Roberts, General Manager
Amador Salinas, Personnel
Ronald O. Graf, Distribution
Inez Macias, Jr., Customer Service

Building for water in San Antonio also dictates the need for additional water infrastructure. CWB continued its own capital improvements program at a cost of $12 million by laying nearly 36 miles of mains, installing 228 new fire hydrants and expanding water storage capacity throughout the service area by 13 million gallons. Routine main replacement and repair to CWB single-use customers totaled $3 million. An additional $7 million was spent on relocating CWB facilities to make way for City street and drainage projects and State highway construction.

The City Water Board is preparing its current customers as well as the next generation for water use by broadening the utility's community education efforts. Last year more than 6,000 brochures and 12,000 conservation kits were distributed to citizens. Pump station tours, civic organization presentations and the continuation of a weekly cable television program on water also served to inform customers about wise water use.

Area fourth-graders and their teachers enthusiastically received a water education course called "Major Rivers." More than 30,000 school children in Bexar County last year learned about the water cycle, water conservation, water production and distribution in a fun and creative format.

In addition to major building blocks such as Applewhite, the Eastside Multi-Service Center and multi-million dollar infrastructure additions, CWB's workforce gained a new general manager as Lowell E. Roberts was appointed by the Water Works Board of Trustees to fill the vacancy left by Lester J. Hash who retired. Roberts had served as assistant general manager to Hash.

Overall, the first year in the decade of the 1990s proved to be a decisive step in the right direction as the City Water Board began shaping San Antonio's water future.

Board of Trustees

The Board of Trustees of the San Antonio Waterworks System:

We have audited the accompanying balance sheets of the San Antonio Waterworks System (a City of San Antonio owned utility doing business as City Water Board) as of December 31, 1990 and 1989, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These component unit financial statements are the responsibility of the San Antonio Waterworks System's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material aspects, the financial position of the San Antonio Waterworks System at December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the component unit financial statements of the San Antonio Waterworks System taken as a whole. The supplementary information included in pages 28 and 29 is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such 1990 and 1989 supplementary information has been subjected to the auditing procedures applied in the audits of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

In connection with our audits, nothing came to our attention that caused us to believe that the San Antonio Waterworks System was not in compliance with any of the terms, covenants, provisions, or conditions of Sections 9 to 20, inclusive of Ordinance No. 52091 adopted April 24, 1980 by the City of San Antonio, Texas insofar as they relate to accounting or auditing matters. It should be noted, however, that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees and management of the San Antonio Waterworks System and the City of San Antonio.

San Antonio, Texas
February 15, 1991

KPMG Peat Marwick
Garza/Gonzalez & Associates

SAN ANTONIO WATERWORKS SYSTEM
COMPARATIVE BALANCE SHEET

ASSETS

	December 31	
	1990	*1989*
CURRENT ASSETS		
Cash and cash equivalents — Note B	$ 5,001,054	$ 3,086,029
Investments — Note B	4,499,434	3,891,605
Accrued interest receivable	1,233,147	1,552,981
Accounts receivable — including unbilled water revenues of $3,091,207 in 1990 and $2,820,861 in 1989 and net of allowance for uncollectible accounts of $286,329 in 1990 and $202,020 in 1989	11,440,845	12,800,872
Inventory — materials and supplies	1,620,934	1,690,675
Prepaid expenses	118,183	119,307
Total current assets	23,913,597	23,141,469
UNAMORTIZED REFUNDING BOND EXPENSES	2,406,258	1,172,985
RESTRICTED ASSETS — Note C		
Prior Lien Bond funds:		
Cash and cash equivalents — Note B	9,510,032	– 0 –
Investments — Note B	10,779,656	18,120,959
Bonds and Additional Bonds funds:		
Cash and cash equivalents — Note B	1,320,707	– 0 –
Investments — Note B	3,589,714	5,239,642
Construction funds:		
Cash and cash equivalents — Note B	14,337,159	9,140,531
Investments — Note B	51,872,467	53,383,570
Unamortized bond expense	384,334	272,070
Customers' Deposits -		
Cash and cash equivalents — Note B	5,636,896	5,636,644
Designated for deferred compensation -		
Investments — Notes B and D	1,971,516	1,826,325
	99,402,481	93,619,741
UTILITY PLANT		
Utility plant in service — Note E	509,463,755	481,290,490
Less allowances for depreciation	(115,584,462)	(104,124,948)
	393,879,293	377,165,542
Land and land rights	3,635,332	2,791,654
Construction in Progress	55,365,904	43,935,930
	452,880,529	423,893,126
TOTAL ASSETS	$ 578,602,865	$ 541,827,321

SAN ANTONIO WATERWORKS SYSTEM
COMPARATIVE BALANCE SHEET

LIABILITIES AND EQUITY

	December 31 1990	December 31 1989
CURRENT LIABILITIES		
Accounts payable	$ 2,652,189	$ 1,643,034
Sewer service collections due to the City of San Antonio and others	3,938,450	4,045,501
Due to City of San Antonio for acquisition of water districts — current portion — Note F	236,930	217,486
Notes payable — current portion — Note F	415,181	419,889
Accrued vacation pay	1,533,792	1,445,363
Sundry payables and accruals	6,094,132	5,680,074
Total current liabilities	14,870,674	13,451,347
LIABILITIES OF RESTRICTED FUNDS		
Prior Lien Bond funds:		
Accrued interest payable	2,308,691	2,431,024
Bonds and Additional Bonds funds:		
Accrued interest payable	340,692	413,892
Construction funds:		
Advances for construction	6,443,529	8,265,286
Customers' deposits	5,636,896	5,636,644
Revenue bonds payable within one year — Note H	7,285,000	6,235,000
Deferred compensation due employees — Note D	1,971,516	1,826,325
	23,986,324	24,808,171
LONG-TERM DEBT — amounts payable after one year:		
Revenue bonds — Note H	231,872,063	202,630,000
Due to City of San Antonio for acquisition of water districts — Note F	4,803,623	4,541,976
Notes payable — Note F	300,851	727,313
	236,976,537	207,899,289
Total liabilities	275,833,535	246,158,807
EQUITY		
Retained earnings:		
Reserved for:		
Retirement of bonds and interest:		
Prior Lien Bonds funds	17,980,997	15,689,936
Bonds and Additional Bonds funds	4,569,729	4,825,749
Construction	60,150,431	54,530,885
	82,701,157	75,046,570
Unreserved	62,415,123	68,914,729
	145,116,280	143,961,299
Contributions in aid of construction	157,653,050	151,707,215
Total equity	302,769,330	295,668,514
CONTINGENCIES AND COMMITMENTS — Note K		
TOTAL LIABILITIES AND EQUITY	$ 578,602,865	$ 541,827,321

See notes to financial statements.

SAN ANTONIO WATERWORKS SYSTEM
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS

	Year Ended December 31	
	1990	*1989*
OPERATING REVENUES		
Metered water sales	$ 53,706,862	$ 59,590,749
Customers' penalties	825,778	1,038,388
Central heating and cooling sales	2,579,804	2,794,633
Fire protection and miscellaneous	3,073,038	3,114,914
Total operating revenues	60,185,482	66,538,684
OPERATING EXPENSES		
Maintenance and operation	36,998,985	37,452,367
Internal Service Fund — net income	(1,394,762)	(1,302,454)
Total operating expenses before depreciation	35,604,223	36,149,913
Depreciation expense	13,148,868	11,962,199
Total operating expenses	48,753,091	48,112,112
Operating income	11,432,391	18,426,572
NONOPERATING REVENUES		
Interest earned and miscellaneous	8,402,033	9,260,625
NONOPERATING EXPENSES		
Amortization of refunding bond expense	126,115	87,044
Interest expense:		
Revenue bonds — Note J	14,744,685	15,764,141
Purchase of equipment	2,985	980
Annexation or purchase of water systems	433,656	487,552
Amortized discount expense	1,682,544	—
Loss (Gain) on sale of fixed assets	32,196	(78,312)
Plastic yard piping program expenses — Note L	215,097	386,706
Total nonoperating expenses	17,237,278	16,648,111
Income before extraordinary item	2,597,146	11,039,086
Extraordinary item-loss from early extinguishment of long-term debt — Note I	1,442,165	—
NET INCOME	1,154,981	11,039,086
Retained earnings, beginning of year	143,961,299	132,922,213
Retained earnings, end of year	$ 145,116,280	$ 143,961,299

See notes to financial statements.

COMPARATIVE STATEMENT OF CASH FLOWS

	Year Ended December 31	
	1990	*1989*
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 62,038,357	$ 63,806,266
Cash paid to vendors for operations	(21,873,259)	(18,591,971)
Cash paid to employees for services	(15,479,414)	(16,398,994)
Net cash from Internal Service Fund	1,443,716	1,302,454
Net cash from operating activities	26,129,400	30,117,755
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments on Plastic Yard Piping Program	(215,097)	(386,706)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of fixed assets	1,837,219	107,000
Proceeds from developers for plant construction	2,012,272	491,594
Payments for acquisition of property, plant and equipment	(42,634,583)	(31,817,637)
Proceeds from Prior Lien Water Revenue Bonds—Note I	36,457,101	28,000,000
Proceeds from Prior Lien Water Revenue Refunding Bonds—Note I	31,279,406	—
Amount escrowed for refunding of bonded debt—Note I	(31,279,406)	—
Retirement of revenue bonds outstanding	(9,835,000)	(5,490,000)
Payment of interest on revenue bonds outstanding	(16,098,133)	(16,662,681)
Cash to City of San Antonio for debt of acquired water districts:		
Principal	(217,487)	(228,351)
Interest	(238,314)	(377,911)
Payments of notes payable—principal	(431,170)	(589,564)
Payments of notes payable—interest	(2,890)	(112,688)
Cash paid to employees for construction of plant	(2,098,365)	(1,836,015)
Cash paid for supplies for construction of plant	(1,000,149)	(1,362,681)
Net cash for capital and related financing	(32,249,499)	(29,878,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and maturity of investments	15,555,973	(9,144,919)
Interest income	8,721,867	8,852,589
Net change in cash from investing activities	24,277,840	(292,330)
NET CASH INCREASE (DECREASE)	17,942,644	(440,215)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,863,204	18,303,419
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35,805,848	$ 17,863,204
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET		
Cash and Cash Equivalents		
Unrestricted	$ 5,001,054	$ 3,086,029
Restricted:		
Debt service funds	10,830,739	—
Construction funds	14,337,159	9,140,531
Customers' deposits	5,636,896	5,636,644
	$ 35,805,848	$ 17,863,204
RECONCILIATION OF OPERATING INCOME		
Operating Income	$ 11,432,391	$ 18,426,572
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	13,148,868	11,962,199
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	1,360,027	(1,354,040)
(Increase) decrease in inventory	69,741	(224,156)
(Increase) decrease in prepaid expenses	1,124	(41,867)
Increase in accounts payable	1,009,155	188,688
Increase in capital related accounts payable	(1,287,594)	—
(Decrease) in amount due for sewer collections	(107,051)	(1,860,857)
Increase in accrued vacation payable	88,429	214,221
Increase in sundry payables	414,058	2,637,598
Increase in customers' deposits	252	169,397
Total adjustments	14,697,009	11,691,183
Net cash provided by operating activities	$ 26,129,400	$ 30,117,755

NONCASH CAPITAL AND FINANCING ACTIVITIES:

The Board received $ 4,227,175 and $10,902,615 in contributions in aid of construction in 1990 and 1989, respectively. In 1990 the Board acquired the assets related to water service of the Timber Creek Utility District and assumed a portion of the bonded indebtedness of the district. The Timber Creek Utility District existed in an area annexed by the City of San Antonio. The assets recorded by the Board equalled $498,578 with corresponding liabilities.

See notes to financial statements

– NOTE A –

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The San Antonio Waterworks System (System) is owned by the City of San Antonio (City) and its financial statements are included with other enterprise funds of the City in its Comprehensive Annual Financial Report.

Management of the System: As specified by City Ordinance No. 52091, adopted April 24, 1980, the City has vested complete management and control of the System in a five-member board of trustees known as the "Water Works Board of Trustees of San Antonio." The Board of Trustees consists of the Mayor and four residents of the City of San Antonio. With the exception of the Mayor, all other Trustees are appointed by the City Council for eight-year staggered terms and are not eligible for reappointment. In addition to appointment of members of the Board of Trustees, the City Council also considers requests for rate adjustments, and any sale of additional revenue bonds must have been approved by the City Council. The San Antonio Waterworks System does business under the name of City Water Board (Board).

Annual Budget: The Board prepares, prior to the beginning of each fiscal year, a detailed comprehensive annual budget reflecting estimates of revenues and expenses and other requirements for the ensuing fiscal year in sufficient detail to indicate the probable Gross Revenues and Pledged Revenues of the System for such fiscal year. Encumbrances are not formally recorded in the accounting system but are monitored and disclosed if significant amounts are outstanding at year end. Outstanding encumbrances lapse at year end and must be reappropriated in the following year.

Fund Accounting: Within the Board's enterprise fund accounts, separate self-balancing funds are maintained to account for resources for various purposes, thereby distinguishing balances restricted by management or outside sources from unrestricted resources. These restrictions are more fully explained in Note C. Interfund receivable and payable accounts have been eliminated in the financial statements.

Basis of Accounting: The financial statements are prepared using the accrual basis of accounting.

Investments: Investments are carried at cost or amortized cost which approximates market value. Investments held by the International City Management Association (ICMA) Retirement Corporation for deferred compensation are valued at market. Time deposits with a maturity at date of purchase over 90 days are considered investments.

Inventory: Inventories are valued at the lower of average cost or market.

Unamortized Refunding Bond Expense: Expenses relating to the sale of revenue refunding bonds are amortized over the life of the refunding issue.

Utility Plant: Utility plant in service is recorded on the basis of cost. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair market value at date of donation. It is the policy of the Board to capitalize certain interest costs on revenue bonds associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized.

The Board provides for depreciation of utility plant in service on the straight-line method at amounts estimated to amortize costs of assets over their estimated average useful lives. At the time of retirement of utility plant assets, the allowance for depreciation is charged with the original cost of the asset and the cost of removal.

The following estimated average useful lives are used in providing for depreciation of utility plant:

Structures and improvements	*50 years*
Pumping and purification equipment	*10 – 50 years*
Distribution and transmission system	*25 – 50 years*
Equipment and machinery	*5 – 20 years*
Furniture and fixtures	*20 years*
Central heating and cooling plant	*10 – 50 years*

Compensated Absences: It is the policy of the Board to accrue employee vacation pay as earned. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

Self-Insurance: The Board is self-insured for a portion of workers' compensation, employers' liability, public officials liability, property damage, and certain elements of general liability exposures. A liability has been recorded for the estimated amount of eventual loss which will be incurred on claims arising prior to year end.

Cash Flows Statement: For purposes of the statement of cash flows, the Board considers all highly liquid investments with maturity at date of purchase of three months or less to be cash equivalents.

Reclassifications: Certain 1989 amounts have been reclassified to conform to 1990 presentations.

– NOTE B –

CASH, CASH EQUIVALENTS AND INVESTMENTS

City Ordinance No. 52091 permits the Board to invest in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or to invest in direct obligations of the United States of America which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or to invest in obligations of instrumentalities of the United States of America, including, but not limited to evidences of the indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust.

Cash and Cash Equivalents: All deposits of cash and cash equivalents are in a single financial institution and are carried at cost.

	December 31, 1990		December 31, 1989	
	Carrying Amount	*Bank Balance*	*Carrying Amount*	*Bank Balance*
Deposits insured by FDIC	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Deposits collateralized by securities held by Federal Reserve Branch in Board's name	35,605,848	37,644,064	17,663,204	19,936,972
	$ 35,805,848	$ 37,844,064	$ 17,863,204	$ 20,136,972

Investments: The Board has included as investments, certificates of deposit with a maturity at date of purchase of over 90 days. All certificates of deposit classified as investments at December 31, 1990 and 1989 were held in a single financial institution. All other Board investments for the years ended December 31, 1990 and 1989 were in U.S. Treasury securities and were held in safekeeping by the Board's general depository bank registered for the account of the Board, with the exception of the deferred compensation which is administered by the ICMA Retirement Corporation. The investments administered by the ICMA Retirement Corporation include stocks, bonds, and other debt and equity securities.

The Board's investments are categorized as follows to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured, or registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or the dealer's agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or agent but not in the Board's name. The carrying amount of investments approximates cost or amortized cost.

Presented below are the Board's investments at December 31, 1990 and 1989.

– Note C –
ADOPTION OF CITY ORDINANCE NO. 52091

Purpose: On April 24, 1980, City Ordinance No. 52091 was adopted. This ordinance authorized the issuance of $37,495,000 Water System Revenue Refunding Bonds, Series 1980, dated May 1, 1980. These bonds were issued to refund in advance of maturity $47,340,000 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 24819. The purpose of this advance refunding was to release and discharge the restrictive covenants contained in City Ordinance No. 24819 in order to permit the City to meet future financing needs under more favorable conditions. Bonds outstanding at December 31, 1990 and 1989 that were considered defeased in 1980 are $22,000,000 and $25,075,000, respectively.

Funds Flow: City Ordinance No. 52091 requires that gross revenues of the System be applied in sequence to: (a) current expenses of operation and maintenance; (b) debt service and reserve requirements; (c) capital expenditures, or unexpected or extraordinary repairs or replacements, or for any other lawful purpose. All requirements of the ordinance have been complied with at December 31, 1990 and 1989.

Rate Covenant: The City has covenanted that for each year that any Bonds are outstanding and unpaid, the City will establish and maintain rates and collect charges for the facilities and services afforded by the System which will provide each year Gross Revenues sufficient, together with any other Pledged Revenues, (i) to pay all current operation and maintenance expenses of the System and (ii) produce an amount of Pledged Revenues during each fiscal year at least 1.25 times the principal and interest requirements during such fiscal year of all outstanding bonds payable from Pledged Revenues.

Additional Parity Revenue Bonds: The City reserves the right to issue additional Parity Revenue Bonds which may be either Prior Lien Additional Bonds or Additional Bonds, subject to compliance with certain conditions. Subordinate lien bonds

As of December 31, 1990

	Category 1	Category 2	Category 3	Carrying Amount
US Treasury Securities	$ 70,741,271	$ —	$ —	$ 70,741,271
Investments Administered by ICMA	—	—	1,971,516	1,971,516
	$ 70,741,271	$ —	$ 1,971,516	$ 72,712,787

As of December 31, 1989

	Category 1	Category 2	Category 3	Carrying Amount
Certificates of deposit over 90 days to maturity at date of purchase	$ 22,645,025	$ —	$ —	$ 22,645,025
US Treasury Securities	57,990,751	—	—	57,990,751
Investments Administered by ICMA	—	—	1,826,325	1,826,325
	$ 80,635,776	$ —	$ 1,826,325	$ 82,462,101

payable from Pledged Revenues may also be issued. The City may issue Prior Lien Additional Bonds under certain conditions which include certification that Pledged Revenues for the past year were at least equal to 1.25 times the maximum annual principal and interest requirements of all bonds of any nature or lien which are scheduled to be outstanding after delivery of the then proposed Prior Lien Additional Bonds.

Prior to issuance of any Additional Bonds, the City must secure, among other things, (i) a certificate from an independent certified public accountant or firm of independent certified public accountants that during either the next preceding fiscal year or any twelve consecutive calendar month period ending not more than 90 days prior to the passage of the Ordinance authorizing the issuance of such Additional Bonds, the Pledged Revenues were at least equal to the aggregate of (a) 1.10 times the maximum principal and interest due in any fiscal year on any bonds, including any subordinate lien bonds, payable from Pledged Revenues, but excluding any Prior Lien Additional Bonds, plus (b) 1.25 times an amount equal to the maximum principal and interest due on any outstanding Prior Lien Additional Bonds; and (ii) a certificate from an independent engineer showing that estimated Pledged Revenues from the System to be received for each year beginning with the fiscal year next following the date of the proposed Additional Bonds will be at least equal to 1.25 times the principal and interest requirements of all bonds, including any subordinate lien bonds, payable from Pledged Revenues and outstanding in such fiscal year.

It is specifically provided in the Ordinance, that in calculating the amount of Pledged Revenues, if there has been any increase in the rates or charges for services of the System which is then in effect, but which was not in effect during all or any part of the entire period for which the Pledged Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant shall determine and certify the amount of Pledged Revenues as being the total of (i) the actual Pledged Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

No Free Service: City Ordinance No. 52091 also provides for no free services but allows the Board to provide water service to the City without charge for municipal and fire protection purposes in lieu of charges by the City to the Board for use of its streets, alleys, and public ways.

– NOTE D –
DEFERRED COMPENSATION PLAN

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, administered by the International City Management Association Retirement Corporation (ICMA) is available to all full-time employees and permits them to defer the lesser of $7,500 or 25% of their annual salary until future years. The deferred compensation is not available to employees until termination, death, disability or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income and losses attributable to those amounts, property, or rights are solely the property and rights of the Board subject only to the claims of the Board's general creditors. Participants' rights under the plan are equal to those of general creditors of the Board in an amount equal to the fair market value of the deferred account for each participant.

The Board believes that it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

– NOTE E –
UTILITY PLANT IN SERVICE

Components of utility plant in service are summarized as follows:

	1990	1989
Structures and Improvements	$ 53,054,208	$ 47,177,916
Pumping and purification equipment	19,341,429	18,620,046
Distribution and transmission system	416,349,346	395,443,453
Equipment and machinery	11,349,675	10,812,195
Furniture and fixtures	2,375,788	2,249,123
Central heating and cooling plant	6,993,309	6,987,757
	$ 509,463,755	$ 481,290,490

– NOTE F –
DUE TO CITY OF SAN ANTONIO FOR ANNEXATIONS OF WATER DISTRICTS AND NOTES PAYABLE

As a result of various annexation actions, the City became legally obligated to pay the outstanding bonds of the annexed utility districts through ad valorem taxes. However, the City has elected and is lawfully permitted to pay such obligations from available revenues of the water system. The Board's portion of indebtedness assumed by the City of San Antonio from annexations of various water districts totaled $5,040,553 and $4,759,462 at December 31, 1990 and 1989, respectively.

Annual Debt Service Requirements Due to City of San Antonio for Annexations of Water Districts

Year Ending December 31	*Interest*	*Principal*	*Total*
1991	$ 375,033	$ 236,930	$ 611,963
1992	366,399	246,363	612,762
1993	350,046	210,965	561,011
1994	335,213	201,275	536,488
1995	320,252	202,530	522,782
Thereafter	2,362,132	3,942,490	6,304,622
	$ 4,109,075	$ 5,040,553	$ 9,149,628

The Board has various notes payable to water companies and suppliers at year end. The notes to water companies are payable solely from net revenues of the acquired system. These notes bear interest at rates of 6% to 8.5%.

The notes to suppliers are collateralized by equipment. These notes bear interest at rates ranging from 8.1% to 8.15%. The Board's notes payable totaled $716,032 and $1,147,202 at December 31, 1990 and 1989, respectively.

Annual Debt Service Requirements — Notes Payable

Year Ending December 31	*Interest*	*Principal*	*Total*
1991	*$ 46,675*	*$ 415,181*	*$ 461,856*
1992	*13,081*	*293,687*	*306,768*
1993	*295*	*7,164*	*7,459*
	$ 60,051	*$ 716,032*	*$ 776,083*

– NOTE G –

COMMERCIAL PAPER PROGRAM

On December 6, 1990, the City Council authorized the Board to establish a tax-exempt short-term borrowing program (the "Commercial Paper Program") in an amount not to exceed $50,000,000 at any one time outstanding. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to the System. Scheduled maturities of the short-term borrowings under the Commercial Paper Program may not extend past December 6, 2030.

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 borrowings sufficient to pay the principal of the Commercial Paper Program. Unless and until the existing Credit Agreement is amended or a new credit agreement is entered into which would allow the City to borrow in excess of $50,000,000, the City may not have outstanding more than $50,000,000 in borrowings under the Commercial Paper Program.

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 borrowings under the Commercial Paper Program, and (ii) borrowings under and pursuant to the Credit Agreement. The City and Credit Suisse Bank (the "Bank") have entered into a revolving credit agreement (the "Credit Agreement") pursuant to which the Bank is obligated under the Credit Agreement to loan to the City an aggregate amount not to exceed $55,625,000 for the purpose of paying amounts due on the Commercial Paper Program. Any borrowings under the Credit Agreement are equally and ratably secured by and payable from the above-described sources pledged for payment of the Commercial Paper Program and from a pledge of the Net Revenues of the System, such pledge being subordinate and inferior to the pledge of Net Revenues securing all Revenue Bonds.

No borrowings were made under the Commercial Paper Program at year end.

– NOTE H –

REVENUE BONDS

Prior Lien Water System Revenue Bonds, comprised of Series 1980, Series 1982, Series 1983, Series 1984, Series 1986, Series 1986-A, Series 1987, Series 1989, Series 1990 and Series 1990A outstanding in the amounts of $305,070,000 (including compounded value of Capital Appreciation Bonds of $90,820,481) and $180,600,000 at December 31, 1990 and 1989, respectively, are collateralized by an irrevocable first lien on and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System and extensions necessary to render efficient service. At December 31, 1990, these bonds were due in varying amounts, from a low of $2,971,750 in 2013 to a high of $21,790,419 in 2006, including interest at rates of 6.1% to 12.75%. At December 31, 1989 these bonds were due in varying amounts, from a low of $2,971,750 in 2013 to a high of $19,157,288 in 1991, including interest at rates of 7.0% to 12.75%.

Water System Revenue Refunding Bonds Series 1980, outstanding in the amounts of $23,225,000 and $28,265,000 at December 31, 1990 and 1989, respectively, are collateralized by an irrevocable lien on and pledge of the gross revenues of the System subordinate only to the prior lien on and pledge of the net revenues of the System created in connection with the Prior Lien Water System Revenue Bonds. At December 31, 1990, these bonds are due in varying amounts, from a low of $3,453,720 in 2000 to a high of $3,533,064 in 1991, including interest at rates of 8.0% to 9.0%. At December 31, 1989, these bonds were due in varying amounts, from a low of $3,762,000 in 2001 to a high of $3,865,750 in 1990, including interest at rates of 8.0% to 9.0%.

Annual Debt Service Requirements — Revenue Bonds

Year Ending December 31	*Revenue Refunding Bonds Series, 1980*	*Prior Lien Bonds Series 1980,82, 83,84,86,86-A,87, 89, 90, and 90A*	*Total All Revenue Bonds*
1991	*$ 3,533,064*	*$ 19,324,877*	*$ 22,857,941*
1992	*3,530,151*	*19,110,337*	*22,640,488*
1993	*3,520,551*	*19,057,493*	*22,578,044*
1994	*3,518,201*	*19,092,223*	*22,610,424*
1995	*3,507,038*	*19,074,511*	*22,581,549*
Thereafter	*17,373,020*	*361,137,708**	*378,510,728*
	34,982,025	*456,797,149*	*491,779,174*
Unamortized Discount of Capital Appreciation Bonds	*—*	*(89,137,937)*	*(89,137,937)*
	$ 34,982,025	*$ 367,659,212*	*$ 402,641,237*
Principal	*$ 23,225,000*	*$ 305,070,000**	*$ 328,295,000*
Unamortized Discount of Capital Appreciation Bonds	*—*	*(89,137,937)*	*(89,137,937)*
	23,225,000	*215,932,063*	*239,157,063*
Interest	*11,757,025*	*151,727,149*	*163,484,174*
	$ 34,982,025	*$ 367,659,212*	*$ 402,641,237*

* *Includes compounded value of Capital Appreciation Bonds of $90,820,481.*

– NOTE I –

DEFEASED LONG TERM DEBT

On May 24, 1990 the City Council authorized the issuance of $31,200,000 of City of San Antonio Prior Lien Water System Revenue Refunding Bonds, Series 1990A. The proceeds of this issue were used to refund in advance of maturity certain high interest rate bonds aggregating to $29,210,000 of the City's outstanding Prior Lien Water System Revenue Bonds Series 1980, Series 1983, and Series 1987 in the amounts of $9,650,000, $14,400,000 and $5,160,000, respectively, and to pay bond issuance expenses. The purpose of this advance refunding was to achieve a reduction in overall debt service costs.

The Series 1990A Bonds were delivered, proceeds were placed in escrow, and the refunded bonds became legally defeased on June 14, 1990. Accordingly, the Board recognized an extraordinary loss from this advance refunding in an amount of $1,442,165. The source and use of funds for the advance refunding transaction are described as follows:

Source of Funds	
Proceeds of Series 1990A Bonds	*$31,200,000*
Accrued interest on the Series 1990A Bond	*79,406*
Total Sources of Funds	*$31,279,406*
Uses of Funds	
Escrow Fund Portfolio	*$30,652,165*
Underwriters' Discount	*423,696*
Cost of Issuance	*120,500*
Accrued interest	*79,406*
Contingency	*3,639*
Total Uses of Funds	*$31,279,406*

On May 25, 1986 the City Council authorized the issuance of $62,650,000 of City of San Antonio Prior Lien Water System Revenue Refunding Bonds, Series 1986-A. The proceeds of this issue were used to refund in advance of maturity certain high interest rate bonds aggregating to $52,325,000 of the City's outstanding Prior Lien Water System Revenue Bonds Series 1981, Series 1982, and Series 1984 and to pay bond issuance expenses. The purpose of this advance refunding was to achieve a reduction in overall debt service costs. The Series 1986-A Bonds were delivered, proceeds were placed in escrow, and the refunded bonds became legally defeased on June 25, 1986.

The escrowed assets and the liability of the bonds defeased in 1990 and 1986 are not included in the Board's financial statements. At December 31, 1990 and 1989, $81,535,000 and $52,325,000, respectively, of the bonds defeased in 1990 and 1986 remain outstanding.

(See Note C for other defeased-long term debt.)

– NOTE J –

CAPITALIZED INTEREST COSTS

Interest costs incurred on revenue bonds totaled $16,016,145 in 1990 and $16,937,292 in 1989 of which $1,271,460 and $1,173,151, respectively was capitalized as part of the cost of the Board's newly constructed utility plant additions.

– NOTE K –

CONTINGENCIES AND COMMITMENTS

The Board is the subject of various claims and litigation which have risen in the ordinary course if its operations. Legal counsel is of the opinion that the Board's liabilities in these cases, if decided adversely to the Board, will not be significant.

The Board is committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $106.0 million. Funding of this amount will come from available revenues of the System, debt financings, contributions from developers, and restricted assets.

The Board has designated $400,000 of the reserved retained earnings for self insurance purposes to protect it against physical or property losses. This amount is included in the reserve for construction.

– NOTE L –

PLASTIC YARD PIPING PROGRAM

A program to replace plastic yard piping installed by the Board was authorized by action of the City Council on June 17, 1982. Yard piping is property of the home owner and extends from Board facilities to the point of delivery to the owner's premises. The City Council directed that funding for this $2,000,000 project be reprogrammed from proceeds of the Series 1981, Prior Lien Water System Revenue Bond issue. Additional funding for this program in the amount of $2,000,000 was obtained from the proceeds of the Series 1984, Prior Lien Water System Revenue Bond issue. Expenditures on this program amounted to $215,097 and $386,706 in 1990 and 1989, respectively. This program was necessitated by the premature failure of plastic tubing. The Board has recovered the costs of the program through settlement of claims against the manufacturers and suppliers of the product in prior years.

– NOTE M –

PENSION AND RETIREMENT PLANS

The Board's retirement program includes benefits provided by Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

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

1. 28 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average salary and years of credited service. Average Compensation is defined as the monthly average of compensation for the three consecutive years ending December

31, out of the latest ten prior to retirement which give the highest average. The normal retirement benefit under the Principal Mutual contract is equal to;

1. 1.2% of the Average Compensation, as defined, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not less than 35 years, plus
3. 0.375% 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.

TEXAS MUNICIPAL RETIREMENT SYSTEM

The Texas Municipal Retirement System (TMRS) was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas. It is administered in accordance with the Texas Municipal Retirement System Act (the Act), Subtitle G of Title 110B, Revised Civil Statutes of Texas, 1925 as amended, and is governed by a Board of Directors appointed by the Governor of Texas in accordance with the Act.

The Board provides pension benefits for all its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 550 administered by TMRS, an agent multiple-employer public employee retirement system. It is the opinion of the TMRS management that the plans in TMRS are substantially defined contribution plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest and the Board-financed monetary credits, with interest. At the date the plan began, the Board granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent of the employee's accumulated contributions. In addition, the Board can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and Board matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years. 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 ages 60 and above with 10 or more years of service or at ages 50-59 with 25 years or more of service or with 28 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but he must leave his accumulated contribution in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the Board within the option available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 3% of salary, and the Board matching percent is currently 3.03%, both as adopted by the Board. Under the state law governing TMRS, the Board contribution rate is annually determined by the actuary. Part of the Board contribution rate (the normal cost) is to fund the currently accruing monetary credits, with the other part (the prior service contribution rate) calculated as the level percent of payroll needed to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the Board periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is to be amortized over a new 25-year period which began January, 1990. The unit credit actuarial cost method is used for determining the Board contribution rate. Contributions are made monthly by both the employees and the Board. Since the Board needs to know its contribution rate in advance to budget for it, 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 Board's total salaries and wages in fiscal years 1990 and 1989 were $19,254,648 and $18,463,502, respectively. The Board's contributions were based on covered payroll of $18,723,373 and $17,469,159 in 1990 and 1989, respectively. Both the Board's and the employee's contributions were made to TMRS in 1990 and 1989 as required. The contribution amounts are presented below.

	1990	1989
Employer Contribution	$ 555,556	$ 511,846
Employee Contribution	$ 554,828	$ 524,075
Employer Contribution Rate	3.03%	2.93%

The Board adopted changes in the plan since the previous actuarial valuation, which had the effect of increasing the Board's contribution rate for 1990 by 0.1% of payroll. There were no related party transactions.

Even though the substance of the TMRS plan is not to provide a defined benefit in some form, some additional voluntary disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation due to the monetary credits granted by the Board for services rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the annual actuarial valuation as of December 31, 1989. Because of the money-purchase nature of the plan, the interest rate assumption, currently 8.5% per year, does not have as much impact on the results as it does for a defined benefit plan. Market value of assets is not determined for each entity's plan, but the market value of assets for TMRS as a whole was 108.7% of book value as of December 31, 1989.

Pension Benefit Obligation

	December 31, 1990	December 31, 1989
Annuitants currently receiving benefits	$ 1,838,278	$ 1,667,286
Terminated employees	1,128,775	1,347,401
Current Employees:		
Accumulated employee contributions including allocated investment earnings	7,582,107	6,631,754
Employer-financed vested	6,930,593	6,180,747
Employer-financed nonvested	879,980	733,095
Total	18,359,733	16,560,283
Net Assets Available for Benefits, at Book Value	14,645,367	13,090,447
Unfunded Pension Benefit Obligation	$ 3,714,366	$ 3,469,836

The book value of assets is amortized cost for bonds and original cost for short-term securities and stocks. The actuarial assumptions used to compute the actuarial determined Board contribution rate are the same as those used to compute the pension benefit obligation. The numbers above reflect the adoption of changes in actuarial assumptions since the previous actuarial valuation, which had the effect of increasing the pension benefit obligation by $130,197.

PRINCIPAL MUTUAL LIFE INSURANCE

Plan Description: The contract with Principal Mutual Life Insurance Company (the Company), which became effective January 1, 1965, was added by the Board to its retirement Program as a supplement to the TMRS and Social Security benefits. The Company serves as an agent multiple-employer provider that acts as a common investment and administrative agent for the Board. The Board's payroll for employees covered under this contract was $18,081,788 and $16,647,285 for 1990 and 1989, respectively.

The Board provides supplemental pension benefits for all full-time employees through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vested benefits as follows:

Years of Service	***Vested Percentage***
Less than 5	*0 %*
5	*50 %*
6	*60 %*
7	*70 %*
8	*80 %*
9	*90 %*
10 or more	*100 %*

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Funding Status and Progress: The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Benefits for retired employees are fully guaranteed at retirement. Fixed income assets are valued on a contract basis. Long-term equity investments are adjusted by spreading unrealized appreciation and depreciation over four years. Short-term investments, real estate, and bonds are valued at market.

The measure is intended to help users assess the funding status of the plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 1989. Significant actuarial assumptions used in these valuations include the following:

1. Rate of return — 7.5% per annum, compounded annually.
2. Salary scale — 6.0% increase per year until retirement.
3. Plan expenses — 5.0% of estimated plan costs.

Total unfunded pension benefit obligation applicable to the Board's employees as presented in the Report of Actuarial Valuation dated January 1, 1989 is computed as follows:

Pension Benefit Obligation

	January 1, 1990	January 1, 1989
Terminated Employees not yet receiving benefits	$ 570,748	$ 580,885
Current employees:		
Accumulated employee contributions including allocated invested income	N/A	N/A
Employer-financed vested	5,785,353	4,975,717
Employer-financed nonvested	4,234,491	4,127,513
Total Pension Benefit Obligation	10,590,592	9,684,115
Net Assets Available for Benefits (market value)	7,035,394	5,671,925
Unfunded Pension Benefit Obligation	$ 3,555,198	$ 4,012,190

Effective January 1, 1989, the maximum benefits allowed under Section 415 of the Internal Revenue code have increased. The following changes were made to the plan as required by the Tax Reform Act of 1986.

1. Annual compensation used in the calculation of retirement benefits has been limited to $200,000.
2. The plan's definition of compensation has been changed to wages as reported on form W-2.
3. The benefit formula has been amended to meet new integration guidelines.

Plan liabilities have been redetermined as of the beginning of the plan year to reflect the above mentioned changes. The change in the plan during the year had the following effects:

1. Increase in the Normal Cost of $220.;
2. Increase in the Unfunded and Frozen Initial Liabilities of $3,700.;
3. No change in Present Value of Vested Benefits or Present Value of Non-vested Benefits.

Actuarial Determined Contribution Requirements and Contributions Made: The plan's funding policy provides for actuarial determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee from the date the employee is first eligible for the plan to the employee's normal retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation.

Actuarial valuation results for plan years 1990 and 1989 are presented below:

	1990	1989
Minimum contribution	$ 977,900	$ 919,303
Contribution to fund Normal Cost and Unfunded Frozen Initial Liability over 30 years	$ 1,284,481	$ 1,214,854
As % of annualized compensation @ January 1	7.1%	7.3%
Normal Cost	$ 485,217	$ 430,968
As % of annualized compensation @ January 1	2.7%	2.6%
Unfunded Frozen Initial Liability	$ 8,933,430	$ 8,929,750

The significant actuarial assumptions used to compute the actuarial determined contribution requirement are the same as those used to compute the pension benefit obligation as described in the preceding section.

The Board's contributions to the plan were $1,191,617 and $1,133,022 for plan years 1990 and 1989, respectively. The Board does not make contributions based on the above actuarial computed amounts. The Board contributes the actuarial computed normal cost plus interest on the Unfunded Frozen Initial Liability. The Board's expense for 1990 and 1989 represent 6.6% and 6.9%, respectively, of annual covered wages and salaries. The Board is the sole contributor to the plan.

Trend Information: Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Unaudited ten-year trend information may be found on page 89 of the Board's Component Unit Financial Report. Certain trend information for the most current three years is presented below.

	1990	1989	1988
Net assets available for benefits	$ 7,035,394	$ 5,671,925	$ 5,490,317
Pension Benefit Obligation	$ 10,590,592	$ 9,684,115	$ 6,348,627
As % of pension benefit obligation	66.4%	58.6%	86.5%
Unfunded pension benefit obligation	$ 3,555,198	$ 4,012,190	$ 858,310
Annual Covered Payroll	$ 18,081,788	$ 16,647,285	$ 16,383,724
As % of pension benefit obligation	19.7%	24.1%	5.2%
Board contribution	$ 1,191,617	$ 1,133,022	$ 1,122,429
Board contribution as % of covered salaries and wages	6.6%	6.8%	6.9%

Other Benefits

In addition to providing pension benefits, the Board provides certain health care and life insurance benefits for retired employees. Substantially all of the Board's full-time employees may become eligible for those benefits if they reach retirement age while working for the Board. Those and similar benefits for active employees are provided through insurance companies. The Board recognizes the cost of providing these benefits by expensing the annual insurance premiums which amounted to $440,966 and $433,501 in 1990 and 1989, respectively.

– Note N –
SUBSEQUENT EVENTS

On January 17, 1991 the City Council received bids on and awarded the low bid on $27,500,000 of City of San Antonio Prior Lien Water System Revenue Bonds, Series 1991. Proceeds from the sale of the Series 1991 Bonds will be used to provide the funds necessary to relocate water system facilities in conjunction with public works projects, make various capital improvements to the System, and replace certain mains, services and fire hydrants which are deteriorating due to the age or other factors. The Series 1991 Bonds were delivered and proceeds became available for expenditure on February 14, 1991.

The Series 1991 Bonds are on a parity with the presently outstanding $305,070,000 Prior Lien Water System Revenue Bonds, Series 1980, Series 1982, Series 1983, Series 1984, Series 1986, Series 1986-A, Series 1987, Series 1989, Series 1990 and Series 1990A and are equally secured by and payable from a prior lien upon the pledged revenues of the System. The Series 1991 Bonds mature from May 1, 1992 to May 1, 2016 with an average maturity of 21.45 years. The Bonds are due in varying amounts from a low of $1,687,257 in 1991 to a high of $7,049,600 in 2013. Interest rate on the Series 1991 Bonds range from 9.40% to 7.00% with an overall effective rate of 7.2184%.

SAN ANTONIO WATERWORKS SYSTEM
COMPARATIVE SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES AND
THEIR DISPOSITION IN ACCORDANCE WITH CITY ORDINANCE NO. 52091

	Year Ended December 31 *1990*	*1989*	*Variance Over (Under)*	*Percentage*
REVENUES				
Operating revenues:				
Metered water sales	$ 53,706,862	$ 59,590,749	$ (5,883,887)	(9.87)
Customers' penalties	825,778	1,038,388	(212,610)	(20.48)
Chilled water and steam sales	2,579,804	2,794,633	(214,829)	(7.69)
Fire protection and miscellaneous	3,073,038	3,114,914	(41,876)	(1.34)
	60,185,482	66,538,684	(6,353,202)	(9.55)
NONOPERATING REVENUES:				
Interest earned and miscellaneous	8,402,033	9,260,625	(858,592)	(9.27)
OTHER FINANCING SOURCES				
Other financing source	3,067,510	—	3,067,510	100%
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 71,655,025	$ 75,799,309	$ (4,144,284)	(5.47)
DISPOSITION OF REVENUES				
Maintenance and operation:				
Waterworks system	$ 34,872,943	$ 35,658,066	$ (785,123)	(2.20)
Chilled water and steam plant	2,126,042	1,794,301	331,741	18.49
	36,998,985	37,452,367	(453,382)	(1.21)
Operating reserve requirement	434,712	320,000	114,712	35.85
Revenue bond debt requirements:				
Interest costs	16,016,145	16,937,292	(921,147)	(5.44)
Retirement of bonds	10,500,524	6,007,502	4,493,022	74.79
Reserve funds provision	1,369,517	1,665,214	(295,697)	(17.76)
	27,886,186	24,610,008	3,276,178	13.31
Capital requirements:				
Capital outlay	490,466	1,692,723	(1,202,257)	(71.03)
Equipment additions	113,568	(45,237)	158,805	(351.05)
	604,034	1,647,486	(1,043,452)	(63.34)
Other requirements:				
Debt service on annexed water systems	606,440	598,041	8,399	1.40
Debt service on purchased water systems	478,555	680,478	(201,923)	(29.67)
Debt service on equipment purchases	25,986	21,009	4,977	23.69
	1,110,981	1,299,528	(188,547)	(14.51)
Revenue available for construction and contingency	4,620,127	10,469,920	(5,849,793)	(55.87)
TOTAL DISPOSITION OF REVENUES	$ 71,655,025	$ 75,799,309	$ (4,144,284)	(5.47)

SAN ANTONIO WATERWORKS SYSTEM
SUMMARY OF DEBT CHARGES UNTIL MATURITY
DECEMBER 31, 1990

Calendar Year	Total	Annual Requirements to Retire Interest	Principal*	Principal Outstanding*
				$ 328,295,000
1991	$ 22,857,941	$ 15,572,941	$ 7,285,000	321,010,000
1992	22,640,488	14,905,488	7,735,000	313,275,000
1993	22,578,044	14,203,044	8,375,000	304,900,000
1994	22,610,424	13,480,424	9,130,000	295,770,000
1995	22,581,549	12,731,549	9,850,000	285,920,000
1996	22,567,293	11,922,293	10,645,000	275,275,000
1997	22,482,454	11,037,454	11,445,000	263,830,000
1998	22,412,360	10,077,360	12,335,000	251,495,000
1999	22,400,569	9,045,569	13,355,000	238,140,000
2000	22,414,043	7,949,043	14,465,000	223,675,000
2001	21,554,597	6,964,597	14,590,000	209,085,000
2002	21,527,183	6,097,183	15,430,000	193,655,000
2003	21,643,263	5,318,263	16,325,000	177,330,000
2004	21,623,718	4,638,718	16,985,000	160,345,000
2005	21,689,138	4,009,138	17,680,000	142,665,000
2006	21,790,419	3,545,419	18,245,000	124,420,000
2007	21,772,539	3,162,539	18,610,000	105,810,000
2008	21,739,723	2,729,723	19,010,000	86,800,000
2009	21,715,588	2,240,588	19,475,000	67,325,000
2010	21,694,510	1,704,510	19,990,000	47,335,000
2011	21,663,730	1,118,730	20,545,000	26,790,000
2012	21,770,200	610,200	21,160,000	5,630,000
2013	2,971,750	311,750	2,660,000	2,970,000
2014	3,077,651	107,651	2,970,000	—
	$ 491,779,174	$ 163,484,174	$ 328,295,000	

* *Includes compounded value of Capital Appreciation Bonds of $90,820,481.*

REVENUE BOND DEBT COVERAGE RATIOS COMPARED WITH THE NINE PRECEDING YEARS

	Pledged Revenues	Maximum Annual Principal and Interest Requirements on All Outstanding Revenue Bonds	Times Debt Coverage Ratio —All Bonds	Maximum Annual Principal and Interest Requirements on Outstanding Prior Lien Revenue Bonds	Times Debt Coverage Ratio —Prior Lien Only
1990	$ 32,983,292	$ 22,857,941	1.44	$ 21,790,419	1.51
1989	39,649,396	23,014,351	1.72	19,157,288	2.07
1988	35,696,739	20,657,421	1.73	16,785,671	2.13
1987	35,057,964	20,672,671	1.70	16,798,739	2.09
1986	46,093,860	18,028,648	2.56	14,151,278	3.26
1985	25,410,050	15,158,478	1.68	11,275,450	2.25
1984	23,799,268	15,160,349	1.57	11,275,450	2.11
1983	15,737,084	11,634,845	1.35	7,746,075	2.03
1982	17,383,500	9,502,277	1.83	5,625,900	3.09
1981	$ 11,962,850	$ 7,184,835	1.66	$ 3,288,725	3.64

SAN ANTONIO WATERWORKS SYSTEM
FINANCIAL AND STATISTICAL INFORMATION COMPARED WITH
THE NINE PRECEDING YEARS (UNAUDITED)

	1990	*1989*	*1988*
Operating Results			
Metered Water Sales	$ 53,706,862	$ 59,590,749	$ 54,118,509
Metered Water Sales Per 1,000 Gallons — Cents	96.6	96.3	87.1
Metered Water Sales Per Customer	$ 223.88	$ 250.80	$ 235.47
Water Service Operating Expense	$ 34,872,943	$ 35,658,066	$ 31,670,251
Water Service Operating Expense Per 1,000 Gallons — Cents	62.7	57.9	51.0
Water Service Expense Per Customer	$ 145.37	$ 150.64	$ 137.80
Financial Data			
Total Revenue	68,587,515	75,799,309	67,772,221
Total Operating — Expense Before Depreciation	35,604,223	36,149,913	32,075,482
Depreciation Expense	13,148,868	11,962,199	10,738,546
Debt Service and Reserve Funds Requirements	27,886,186	24,610,008	22,610,598
Total Utility Plant	568,464,991	528,018,074	487,827,306
Accumulated Allowance for Depreciation	114,149,913	104,124,948	95,246,918
Net Additions to Utility Plant in Service	43,570,807	43,896,020	44,709,525
Inventory	1,620,934	1,690,675	1,466,519
Bonded Debt	328,295,000*	208,865,000	186,355,000
Municipal Equity (including Reserves)	302,769,330	295,668,514	272,431,852
Interest and Sinking Fund	4,843,025	4,177,501	3,659,999
Reserve Funds	17,707,701	16,338,184	14,672,970
Improvement and Contingency Fund	11,088,579	14,983,242	17,173,577
Pledged Revenue	32,983,292	39,649,396	35,696,739
Maximum Annual Debt Service Requirement	$ 22,857,941	$ 23,014,351	$ 20,657,421
Times Debt Coverage Ratio	1.44	1.72	1.73
Other Statistics			
Water Pumped — Million Gallons	55,571	61,638	62,152
Number of Wells in Service	89	93	91
Average Daily Pumpage — Million Gallons	152.3	168.9	169.8
Maximum Daily Pumpage — Million Gallons	269.3	269.3	248.2
Maximum Hour Pumpage (Daily Rate) Million Gallons	474.7	460.8	354.4
System Pumping Capacity — Million Gallons Day	830.2	797.2	792.7
Overhead Storage Capacity — Million Gallons	46.2	46.5	35.5
Total Storage Capacity — Million Gallons	118.9	113.4	102.4
Metered Usage — Million Gallons	51,102	57,558	55,595
Annual Rainfall — Inches	38.31	22.14	19.01
Customers at End of Year	239,891	236,709	229,835
Average use Per Customer — Thousand Gallons	213.0	243.4	242.8
Miles of Main Installed	80.35	133.34	84.62
Miles of Main Replaced and Abandoned	44.46	40.90	23.30
Miles of Main in Place	3,494	3,458	3,365
New Services Installed	792	1,891	1,340
Fire Hydrants Installed (Net of Hydrants Removed)	228	518	394
Fire Hydrants in Place	16,686	16,458	15,940
Number of Employees at December 31	898	892	884
Total Salaries and Wages Paid	$ 19,254,648	$ 18,463,502	$ 17,264,654

* *Includes compounded value of Capital Appreciation Bonds of $90,820,481.*

SAN ANTONIO WATERWORKS SYSTEM
FINANCIAL AND STATISTICAL INFORMATION COMPARED WITH
THE NINE PRECEDING YEARS (UNAUDITED)

1987	*1986*	*1985*	*1984*	*1983*	*1982*	*1981*
$ 48,398,245	$ 47,952,177	$ 40,200,150	$ 40,413,918	$ 30,837,738	$ 29,649,581	$ 22,904,499
86.5	82.1	70.4	64.8	55.5	49.9	45.3
$ 213.13	$ 212.22	$ 184.49	$ 191.74	$ 150.23	$ 151.84	$ 123.12
$ 26,914,526	$ 26,733,316	$ 25,018,242	$ 25,394,809	$ 21,608,895	$ 19,823,093	$ 16,507,398
48.1	45.8	43.8	40.7	38.9	33.4	32.6
$ 118.07	$ 118.31	$ 114.81	$ 120.49	$ 105.27	$ 103.01	$ 88.74
$ 62,166,837	$ 73,013,370	$ 51,032,325	$ 49,816,468	$ 38,565,205	$ 38,470,266	$ 29,687,827
27,108,873	26,919,510	25,622,275	26,017,200	22,828,121	21,086,766	17,724,877
9,867,879	8,770,272	8,858,783	7,931,553	7,186,739	6,646,780	5,379,781
20,635,261	19,468,573	16,797,274	14,642,620	11,712,031	8,896,467	6,517,591
445,171,253	398,260,089	349,347,272	307,353,866	277,939,595	248,943,341	225,021,065
86,562,439	78,938,749	71,517,960	65,331,503	59,359,406	53,983,632	51,083,581
49,155,351	50,262,300	44,665,732	31,373,727	30,807,219	29,185,515	23,228,164
1,505,276	1,310,827	1,342,356	1,244,424	1,108,001	1,215,579	1,367,219
191,375,000	165,730,000	128,120,000	130,585,000	102,105,000	83,715,000	66,615,000
254,661,249	226,024,871	191,391,371	169,673,990	153,848,369	146,688,777	138,816,653
3,316,666	2,868,484	1,810,000	1,624,998	1,346,667	1,073,333	866,666
13,001,425	11,436,863	9,924,887	8,433,196	7,172,812	6,240,306	5,794,520
27,224,327	22,698,627	2,497,076	825,553	100,341	5,928,909	2,574,753
35,057,964	46,093,860	25,410,050	23,799,268	15,737,084	17,383,500	11,962,850
$ 20,672,671	$ 18,028,648	$ 15,158,478	$ 15,160,349	$ 11,634,845	$ 9,502,277	$ 7,184,835
1.70	2.56	1.68	1.57	1.35	1.83	1.66
55,932	58,423	57,126	62,378	55,557	59,364	50,584
87	85	82	79	78	78	71
153.2	160.1	156.5	170.9	152.5	162.6	138.6
269.9	306.6	261.4	255.8	247.5	297.8	238.3
4400	451.9	355.1	355.0	342.6	416.6	303.1
721.7	701.7	690.6	660.6	652.3	648.2	625.3
35.9	35.6	31.0	28.0	28.0	28.0	27.9
95.2	95.2	89.9	86.9	86.9	86.9	86.8
51,034	50,947	49,872	52,293	45,413	46,532	40,133
37.96	42.73	41.43	25.95	26.10	22.93	36.03
227,946	227,598	220,596	214,852	207,908	201,370	188,969
223.7	225.5	228.4	248.1	221.3	238.3	215.7
98.43	158.29	150.77	129.47	155.59	61.15	105.72
30.10	19.02	41.90	30.00	11.25	15.63	21.70
3,304	3,236	3,097	2,988	2,888	2,744	2,698
3,312	6,182	9,848	8,159	8,366	3,512	5,009
479	848	725	616	708	307	432
15,546	15,067	14,219	13,494	12,878	12,157	11,830
863	847	820	842	819	865	746
$ 16,214,025	$ 15,765,107	$ 14,982,119	$ 13,818,146	$ 13,019,414	$ 12,820,385	$ 10,477,578

SAN ANTONIO WATERWORKS SYSTEM
1990 DEPARTMENT DIRECTORS

Applewhite Water Supply Project
William C. Allanach, Jr., P.E., B.S., M.S., M.B.A.
3 years of service

Compensation
Marcia L. Krolick, B.A.
8 yearsof service

Credit and Collection
Charles J. Wachter, Jr., B.B.A.
7 years of service

Customer Accounts
Larry McMahan, B.A.A.S.
27 years of service

Eastside Service Center
Thomas W. Pahl, P.E., B.S.
18 years of service

Engineering
Lee J. Chegin, P.E., B.S., M.S.
19 years of service

Finance
Alejandro Hinojosa, C.P.A., B.B.A., M.B.A.
7 years of service

Information Services
Ray E. Walls, M.B.A., B.A., D.B.A.
2 years of service

Internal Audit
Rufus Odem, Jr., B.S., M.S.
5 years of service

Investigation, Meter Reading & Plastic Yard Piping
William L. Groff, B.S.
32 years of service

Mains and Services
Wayne A. Bitzkie, B.B.A.
16 years of service

Northeast Service Center
Phil B. Kosub, P.E., B.S.
20 years of service

Northwest Service Center
Thomas P. Pardue, Jr., P.E., B.S.C.E.
8 years of service

Personnel Activities
Fermin J. Gaitan, B.B.A.
7 years of service

Production
Alvin P. Schraer, Jr., P.E., B.S.
17 years of service

Public Relations
John Boggess, B.A.
2 years of service

Purchasing and Contracting
Roger L. Haller, B.B.A.
27 years of service

Risk Management
Edward Mycock, Jr., B.A.
2 years of service

Supply and Services
Albert M. Elliot, P.E., B.S., B.S.C.E., M.S.C.E.
8 years of service

Training
Thomas E. Craig, B.S.
7 years of service

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