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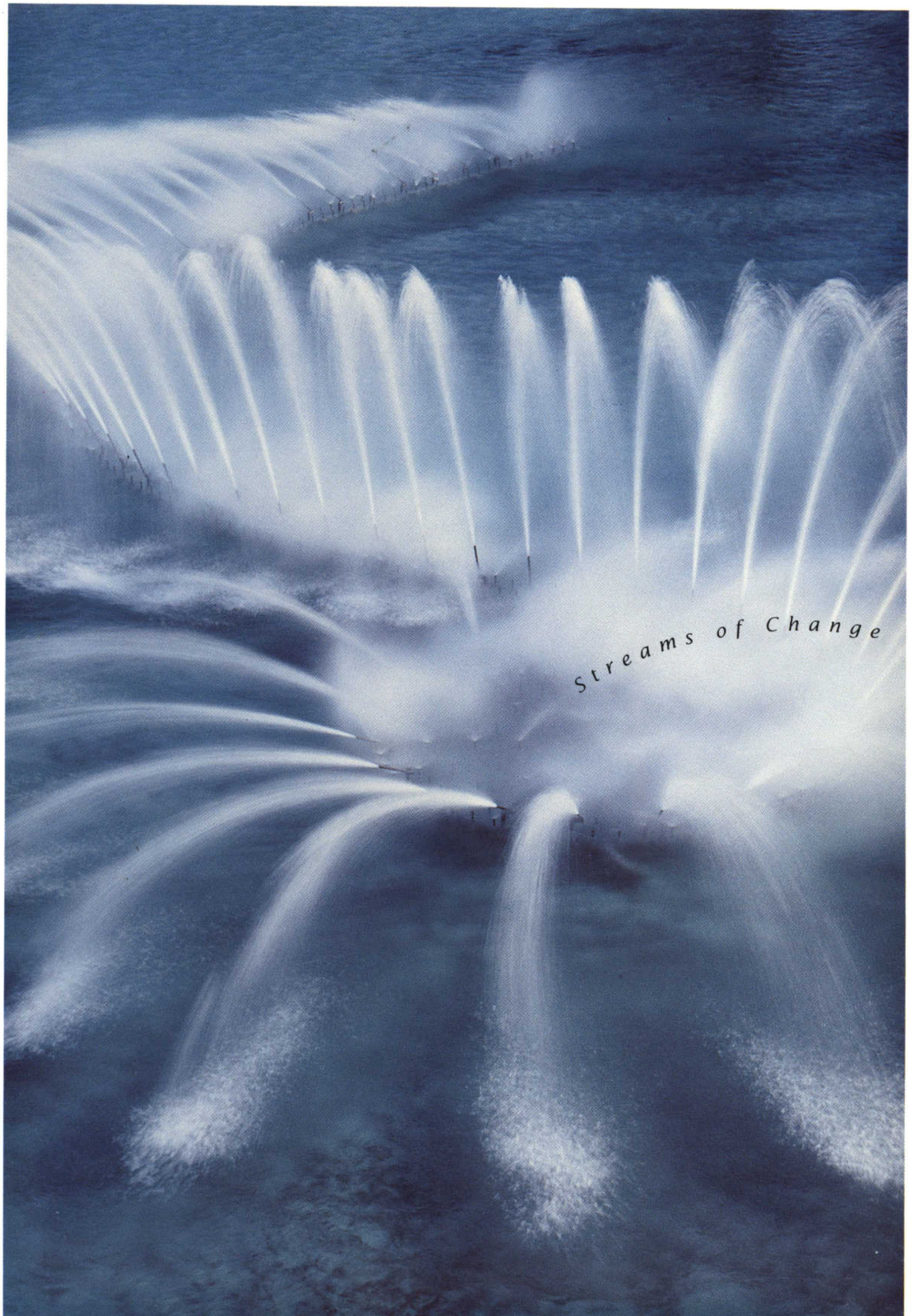
City Water Board of San Antonio

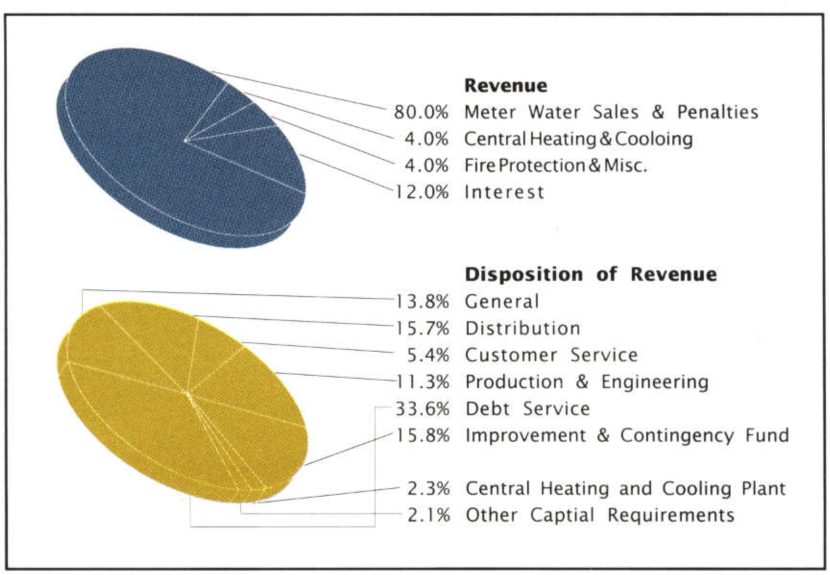
1989 ANNUAL REPORT



Highlights for 1989

Financial	1988		1989
Revenue Increased from	$ 67,772,221	to	$ 75,799,309
Operating Cost Increased from	$ 32,075,482	to	$ 36,149,913
Contributions for Construction Increased from	$ 6,537,139	to	$ 12,197,576
Municipal Equity Rose from	$ 272,431,852	to	$ 295,668,514
Debt Coverage Decreased from	1.73%	to	1.72%
Operating Cost per Water Customer Increased from	$ 137.80	to	$ 150.64
Investment in Gross Utility Plant per Customer Increased from	$ 2,122.51	to	$ 2,230.66

Operating			
Miles of Main Increased from	3,365	to	3,458
Fire Hydrants in Service Increased from	15,940	to	16,458
New Services Installed Increased from	1,340	to	1,891
Number of Customers at Year-end Increased from	229,835	to	236,709
Number of Budgeted Employees Increased from	899	to	910



As the City of San Antonio advances into the 1990s as an energetic and viable competitor for new business development, a key element to future success will be a reliable, low-cost supply of water. Today, the vast majority of the nation's ninth largest city turns to the San Antonio City Water Board (CWB) for that crucial, life-sustaining natural resource. CWB responded positively and productively throughout 1989 to the challenge by adeptly managing the current streams of change and laying the groundwork for supplying water to San Antonio through the coming decade and into the next century.

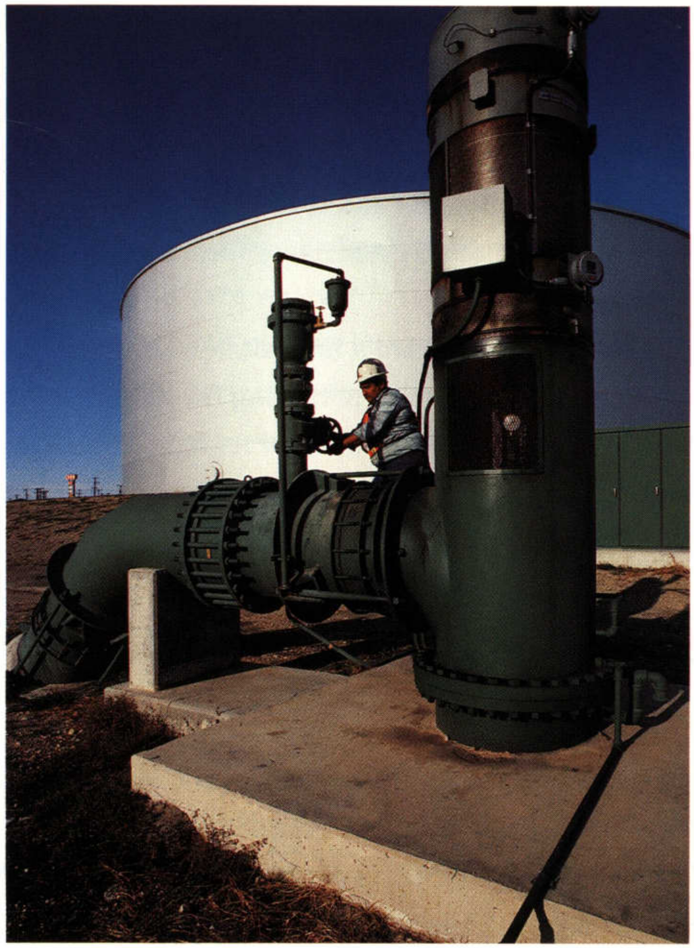
The City Water Board took major steps in 1989 toward implementing near-term and long-term plans to address San Antonio's water supply needs. The Edwards Aquifer, which currently is San Antonio's sole source of water, provides a five-county region of approximately 3,600 square miles with water for agricultural, home and industrial use. Water experts have studied the Edwards Aquifer for many years but their work has proven inconclusive on how much water in the Edwards is accessible below historical low levels. Consequently, the City Water Board implemented a plan to meet growing future water needs by diversifying its water sources, reducing dependence on the Edwards and educating citizens on the value of using water wisely.

The four-part approach includes (a) reducing withdrawals and San Antonio's dependence on the Edwards Aquifer and better overall management of the Aquifer, (b) adding surface water via the Applewhite Water Supply Project to augment Edwards water, (c) moving together with the City of San Antonio toward reusing the city's wastewater, and (d) teaching customers to efficiently use water through proven conservation techniques.

The Water Works Board of Trustees organized a task force to help review and formulate these plans and ensure that both business and residential needs were addressed. Business and professional leaders from all parts of the community along with CWB and City staff worked diligently to bring about excellent progress and support for each of the four areas of study.

Another major item initiated, studied and acted on was the financing for components of this plan and other water system capital improvements on CWB's drawing board for the short term. City Water Board staff and consultants generated a five-year financial blueprint which calls for a combination of bond issues and rate adjustments totaling approximately $478 million to provide the needed system improvement funds. The five-year financial document, which the Trustees officially adopted, also calls for leveling of CWB's overall debt structure to minimize the variability of rate adjustments and to take advantage of favorable bond market conditions.

Achievement of these larger-scale planning goals will complement the efficient, day-to-day productivity of CWB's workforce to give customers the best possible water service at the lowest prices found among major Texas cities—throughout the 1990s and beyond.



The City Water Board addressed growth trends in the northwestern section of the city by accomplishing a major portion of work last year in overhauling and upgrading the Anderson Pump Station. Anderson serves the area of San Antonio newly occupied by Sea World of Texas, and with residential development increasing and a 500-acre resort proposed for location there, CWB went to work to produce the improvements needed to handle current and future water demands. At the Anderson Station CWB installed a seven-and-a-half million gallon storage tank, six high service pumps and all of the necessary piping . Additionally, CWB will maintain five well pumps capable of drawing up to 8,000 gallons of water from the ground per minute.

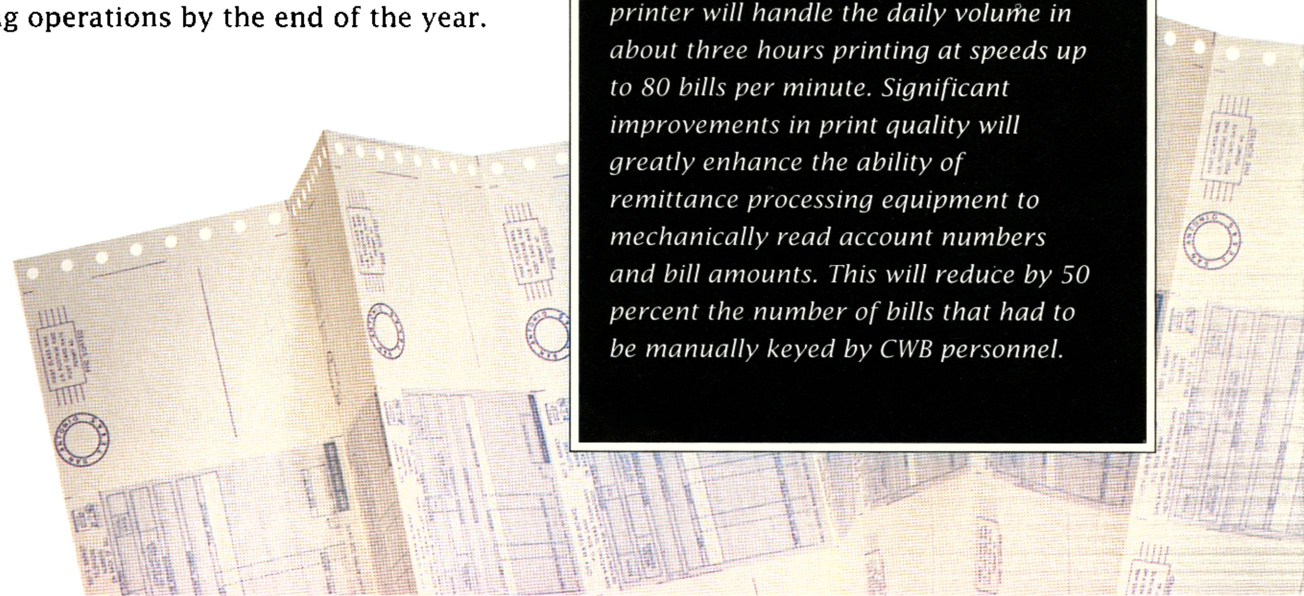
Year-end figures showed the City Water Board serves more than 236,000 customers which represents about two-thirds of the 1.1 million people living in Bexar County. Providing excellent service to those customers not only requires an extensive production and distribution network to physically pump, store and transport water but an extensive information network as well to swiftly handle customer data.

The City Water Board's Information Services Department spent 1989 identifying, acquiring and preparing for operation of a computer system which would allow CWB to perform all of its data processing internally. The City of San Antonio's Data Processing Annex previously handled City Water Board computer work. However, faster and tighter control over data and better quality in printing of bills became essential in daily servicing customers. Thus, CWB management staff and Trustees committed to bring all data processing in-house to maximize efficiency and enhance customer service.

New facilities were constructed in CWB's Main Office to house the computer system. Concurrent with construction, CWB staff conducted a lengthy and detailed search for the right equipment and software to handle the large amounts of data processed each day at the City Water Board and to accommodate future demands for information processing.

Selected hardware arrived during the summer and in a little more than six months CWB installed all major computer equipment, connected system cables, installed and tested software packages, trained key personnel and tested the entire system with CWB employees running day-to-day transactions which included printing and processing of customer bills. That long list of accomplishments culminated with internal initiation of a major portion of CWB's data processing operations by the end of the year.

Each month after City Water Board meter readers make their rounds, CWB computers sort, compile and calculate an enormous amount of data which results in customer bills. Then it's on to the printer — the City Water Board's new computerized printer, that is. Last year the City Water Board mailed 2.9 million current and final bill notices. That averages out to more than 11,500 notices per work day. The new CWB printer will handle the daily volume in about three hours printing at speeds up to 80 bills per minute. Significant improvements in print quality will greatly enhance the ability of remittance processing equipment to mechanically read account numbers and bill amounts. This will reduce by 50 percent the number of bills that had to be manually keyed by CWB personnel.



San Antonio's escalating prominence among major American cities and the parallel rising demand for water are driving another major change for the City Water Board and the community. Until now, the City has relied solely on groundwater for its water supply. However, CWB with the support of business leaders and a majority of the City Council is forging ahead to implement a key aspect in water supply diversification—surface water.

The Applewhite Water Supply Project will play an integral part in building San Antonio's water system to the level of service supply the city will require at the turn of the century. The surface water reservoir is scheduled to be constructed in the southern section of San Antonio along the Medina River. The pool of water resulting from damming of the Medina will encompass approximately 2,500 acres. Water depth will average 18 feet and reach 71 feet at the damsite. Applewhite is designed to supply about 48,000 acre feet of water a year, which represents more than 25 percent of San Antonio's annual needs.

The past year was pivotal for the Project's progress as CWB cleared more major milestones in 1989 than in previous years of the 1980s combined. Financing, licensing and engineering accomplishments were among the success stories for the year which began on a positive note.

With the anticipation of purchasing land late in the year, Water Works Trustees and City Council approved a $28 million bond package in mid-January of which $8 million was allocated for Applewhite. Licensing was next on the reservoir project's agenda.

The final road toward permits for Applewhite began in early February as an official public hearing was conducted by the U.S. Army Corps of Engineers to listen to public comments on the Final Environmental Impact Statement which the Corps issued January 6, 1989. Following that public meeting, the Texas Water Commission held hearings in February, March and April. TWC focused on water quality issues and whether or not the City Water Board had diligently pursued construction of the Project during previous extensions of TWC's water rights permit for Applewhite.

The City Water Board satisfactorily addressed all concerns brought before the Corps of Engineers and TWC and earned the Corps' Federal 404 Permit and an extension of the State's license in August.

Water quality achievements in September and October soon followed the success with the federal and state agencies. CWB initiated a water treatability study to determine the quality of raw Medina water and the final treated product. Laboratory tests resulted in superior ratings for both raw and treated water.

By year's end, CWB purchased 150 acres of land, engineering design progressed to the 95 percent completion mark and archaeological and survey field work continued on schedule.

Overall, Applewhite took significant strides in 1989 toward meeting the start date of construction projected for late summer of 1990. Although Project interveners persist in their opposition, no new information has been presented to raise concerns from the state and federal permitting agencies. The City Water Board is confident that construction and financial schedules will be met and that by the mid-90s the City will benefit from Applewhite's supplemental water and San Antonio's first water treatment facility.

In September, the City Water Board conducted a water treatability study to obtain an analysis of Medina River water that would help engineers in designing the Applewhite Water Treatment Plant. A four-week testing period using pilot plant lab facilities that duplicated a miniature water treatment plant demonstrated that Medina River water can be treated to drinking water standards. Lab results showed that treated samples met all EPA standards plus the tests for aesthetic qualities such as taste, color and odor. Local dignitaries and the media were invited to a "taste test" and demonstration of the treatment process. Attendees commented positively and noted that the treated water tasted like Edwards Aquifer water.

The primary motivating factor behind the City Water Board's need to change and enhance many facets of its business direction is the fact that San Antonio has constantly grown throughout the last 10 years.

Population surges in the 1980s exceeded a two percent annual average and is expected to continue at least at that rate for the forseeable future. And while national and state economic conditions sluggishly entered the 1990s, San Antonio continued its economic upward trend.

The fastest growing employment sector in the past decade has been services with an average growth of 5.5 percent each year. The trade sector grew an average of 3.4 percent annually while government employment averaged 2.5 percent increases annually. Together these three groups account for 75 percent of the local workforce. The San Antonio government contingent with its five military installations and the diversity of the economic base are generally credited with preventing the city from experiencing the type of recession felt throughout most other cities around the state and nation.

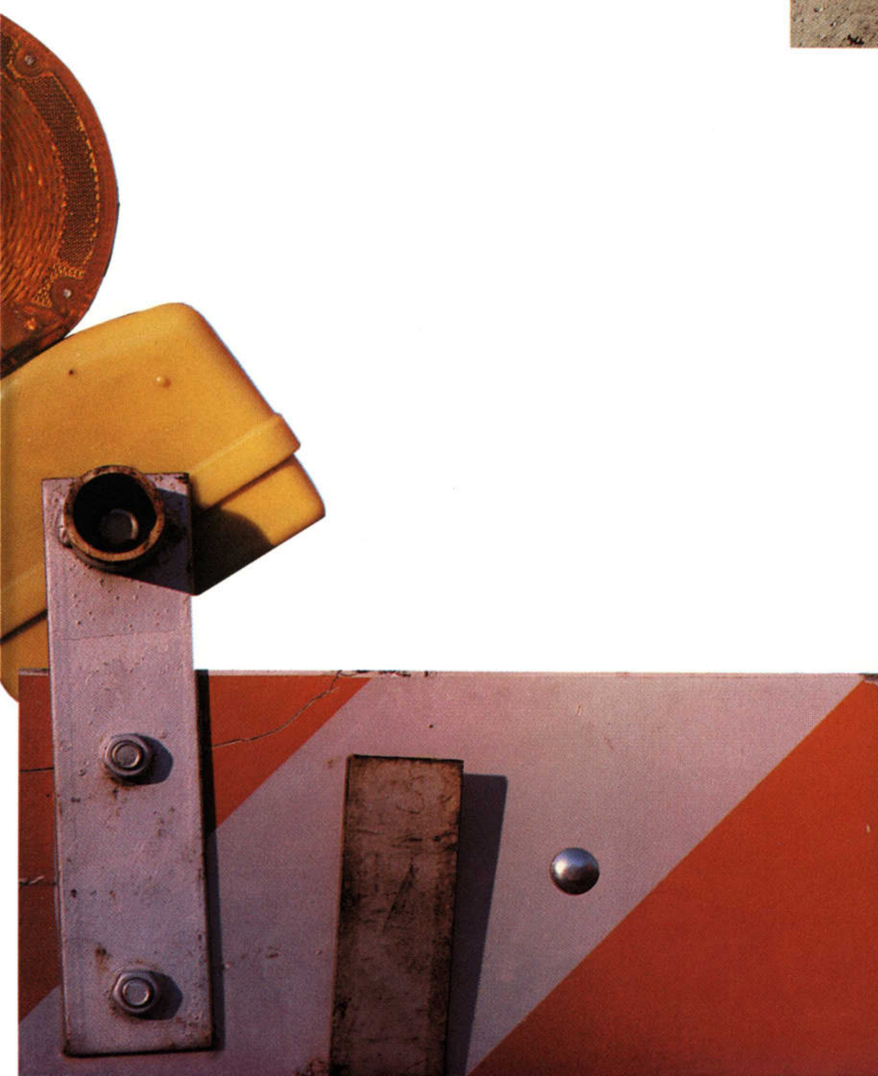
A brief look at specific segments of San Antonio business shows that the tourism industry continues to shine. It's estimated that more than 10 million visitors contributed about $1.8 billion to the local economy in 1989. By the end of 1993, the San Antonio Convention and Visitors Bureau predicts that tourists will pump an additional $1 billion into the local economy.

Plans to complete an Opryland music theme park in 1992 and a multi-purpose domed stadium in 1993 should be big contributers to the the growth of future tourism. In fact, the local convention industry, which has maintained a steady rise in the past few years, already shows those two projects as major attractions for conventions headed for San Antonio in 1993.

Other new developments include the construction of facilities for the Texas Research Park on 1,500 acres in west Bexar County. It is designed to attract firms interested in research and development; corporate and divisional headquarters; and production and pilot plants requiring substantial scientific input. La Cantera is a 1,600-acre, $1 billion project that will combine retail and residential uses. It also will be the home for Opryland.

Another 20 projects valued at more than a billion dollars are either now under construction or planned for the near future.

The City Water Board works closely with the City of San Antonio and the State to accomplish street, drainage and highway projects. CWB's personnel who run the utility's Government Relocation Program coordinate the timing and physical relocation of water facilities before the actual City or State construction begins. The cost for the relocation projects, which the City Water Board funds with bonds and some ratepayer revenue, will approach $7.5 million in 1990. Over the past 10 years, total expenditures for these projects have amounted to $70 million. Governmental relocation costs for CWB should remain fairly constant in the next few years as San Antonio continues to improve its infrastructure.



With both San Antonio and the City Water Board positively on the move, CWB extended its community involvement endeavors in 1989 to stress the importance of water in the city's future development. More customer service programs, water conservation efforts and communications work brought that message home to area residents.

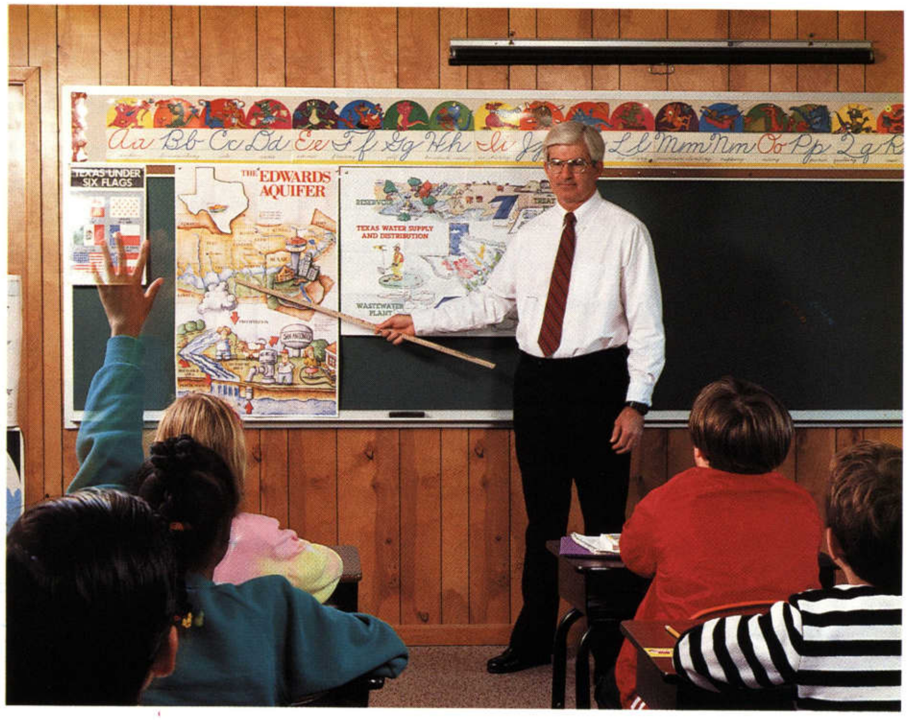
Over the summer, the City Water Board joined forces with the City of San Antonio and the Edwards Underground Water District and kicked off the "H_2Okay" water conservation campaign designed to educate customers about the importance of using water wisely. The "H_2Okay" slogan, created by Water Board staff, was the central theme for three public service announcements and numerous public and school presentations on water conservation. Conservation gains also were made on other fronts as CWB added another leak detection team to the workforce, implemented seasonal rates to encourage customers to carefully monitor water consumption and neared completion of metering all City of San Antonio facilities.

The City of San Antonio receives water for municipal and fire protection purposes without charge in exchange for the use of streets and public rights-of-way by the City Water Board. Since they do not produce revenue, City accounts have been unmetered. However, CWB began installing meters to help the utility accurately record municipal usage and assist the City in its internal water conservation efforts.

Water education advanced this past year as the City Water Board began taping a 30-minute talk show each month. The program, called "WaterLines," airs on two different cable channels and gives the Water Board an outlet to provide a wealth of information to the general public at minimal cost.

Customer service for area senior citizens took a favorable turn as CWB initiated its Senior Citizens Penalty Waiver Program at the start of 1989. The program allows residential customers 65 years of age and older additional time to pay their water and sewer bills without incurring a late payment penalty. The positive response from local seniors exceeded City Water Board projections which were based on a similar program conducted by the local gas and electric utility.

CWB also committed to lend financial and technical support to a public school water education program conducted by the City. The pilot program is designed for area fourth graders and provides general information on water resources and conservation.



Due to a new water education program, San Antonio's fourth graders are getting a little H_2O added to their three "Rs" each day. The City Water Board financially and technically supported the City's newly-implemented public school pilot program which is designed to teach the area's younger water users about the sources, quality, quantity and conservation of water. In addition to the posters and workbooks the students use, a home activity booklet is included so parents can get involved and learn the various ways to wisely put their water resources and dollars to work. The Texas Education Agency reviewed the materials and endorsed the program.

Various personnel achievements, special events and a change on the Water Works Board of Trustees rounded out a successful 1989 for the City Water Board.

In order to create a more efficient means of operations, CWB slightly altered its management structure by changing the status of Assistant General Manager Lowell Roberts. Roberts previously handled both administrative duties for the General Manager and acted as Manager of the Operations Branch. His duties were split and Donald L. Pollard was named as Operations Branch Manager.

The City Water Board dedicated a unique addition to its downtown Market Street Pump Station in early spring. The Market Street facility is the first of its kind in the CWB system where all water wells and production pumps are located below ground. A street level plaza was designed by City Water Board engineers to cover the water production equipment and blend with the architectural styles now found along San Antonio's famed Riverwalk.

The Water Works Board of Trustees took shape for 1990 as the City Council appointed San Antonio businessman Philip M. Barshop to fill the vacancy left by Trustee James H. Uptmore who attended his last official meeting in December.

Managing major change and planning for future changes made 1989 one of the most productive periods in CWB's 81-year history. Drawing from its rich past of reliable, cost efficient water service and confidence in its solid plans for the future, the City Water Board stands ready to aggressively progress into the next decade making water an asset for San Antonio development.

Nelda Weatherly
Nelda Weatherly
Chairman

Lester J. Hash
Lester J. Hash
General Manager

Independent Auditors' Report

The Board of Trustees
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, 1989 and 1988, 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 respects, the financial position of the San Antonio Waterworks System at December 31, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note A to the component unit financial statements, the San Antonio Waterworks System adopted Statement No. 9 of the Governmental Accounting Standards Board which requires the presentation of a statement of cash flows and certain other disclosures.

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 24 and 25 is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such 1989 and 1988 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, 1990

KPMG Peat Marwick   Garza/Gonzalez & Associates

Comparative Balance Sheet

	December 31 1989	1988
ASSETS		
Current Assets		
Cash and cash equivalents – Note B	$ 3,086,029	$ 4,485,483
Investments – Note B	3,891,605	3,616,922
Accrued interest receivable	1,552,981	1,144,945
Accounts receivable – including unbilled water revenues of $2,820,861 in 1989 and $3,057,826 in 1988 and net of allowance for uncollectible accounts of $202,020 in 1989 and $322,707 in 1988	12,800,872	11,446,832
Inventory – materials and supplies	1,690,675	1,466,519
Prepaid expenses	119,307	161,174
Total current assets	23,141,469	22,321,875
Unamortized Refunding Bond Expense	1,172,985	1,260,029
Restricted Assets – Note C		
Prior Lien Bond funds:		
Investments – Note B	18,120,959	15,709,832
Bonds and Additional Bonds funds:		
Investments – Note B	5,239,642	5,193,441
Construction funds:		
Cash and cash equivalents – Note B	9,140,531	8,350,689
Investments – Note B	53,383,570	45,112,424
Accounts receivable		503
Unamortized bond expense	272,070	239,222
Customers' deposits		
Cash and cash equivalents – Note B	5,636,644	5,467,247
Designated for deferred compensation benefits:		
Investments – Notes B & D	1,826,325	1,536,368
	93,619,741	81,609,726
Utility Plant – Note E		
Utility plant in service	481,290,490	429,510,077
Less allowance for depreciation	(104,124,948)	(95,246,918)
	377,165,542	334,263,159
Land and land rights	2,791,654	2,600,366
Construction in progress	43,935,930	55,716,863
	423,893,126	392,580,388
TOTAL ASSETS	$541,827,321	$497,772,018

See notes to financial statements.

	December 31 1989	December 31 1988
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 1,643,034	$ 1,454,366
Sewer service collections due to the City of San Antonio and others	4,045,501	5,906,358
Due to City of San Antonio for annexations of water districts – current portion – Note F	217,486	228,352
Notes payable – current portion – Note F	419,889	587,464
Accrued vacation pay	1,445,363	1,231,142
Sundry payables and accruals	5,680,074	3,244,225
Total current liabilities	13,451,347	12,651,907
Liabilities of Restricted Funds		
Prior Lien Bond funds:		
Accrued interest payable	2,431,024	2,138,612
Bonds and Additional Bonds funds:		
Accrued interest payable	413,892	431,692
Construction funds:		
Advances for construction	8,265,286	10,896,388
Customers' deposits	5,636,644	5,467,247
Revenue bonds payable within one year – Note G	6,235,000	5,490,000
Deferred compensation due employees – Note D	1,826,325	1,536,368
	24,808,171	25,960,307
Long-Term Debt – amounts payable after one year:		
Revenue bonds – Note G	202,630,000	180,865,000
Due to City of San Antonio for annexations of water districts – Note F	4,541,976	4,759,461
Notes payable – Note F	727,313	1,103,491
	207,899,289	186,727,952
Total liabilities	246,158,807	225,340,166
Equity		
Retained earnings		
Reserved for:		
Retirement of bonds and interest – Prior Lien Bond funds	15,689,936	13,571,220
Retirement of bonds and interest – Bonds and Additional Bonds funds	4,825,749	4,761,749
Construction and contingencies	54,530,885	42,806,450
	75,046,570	61,139,419
Unreserved	68,914,729	71,782,794
	143,961,299	132,922,213
Contributions in aid of construction	151,707,215	139,509,639
Total equity	295,668,514	272,431,852
Contingencies and Commitments – Note J		
TOTAL LIABILITIES AND EQUITY	$541,827,321	$497,772,018

See notes to financial statements.

Comparative Statement of Revenues, Expenses and Changes in Retained Earnings

	Year Ended December 31 1989	1988
Operating revenues:		
Metered water sales	$ 59,590,749	$ 54,118,509
Customers' penalties	1,038,388	1,305,963
Chilled water and steam sales	2,794,633	2,791,387
Fire protection and miscellaneous	3,114,914	2,990,661
Total operating revenues	66,538,684	61,206,520
Operating expenses:		
Maintenance and operation	37,452,367	33,364,646
Internal Service Fund – net income	(1,302,454)	(1,289,164)
Total operating expenses before depreciation	36,149,913	32,075,482
Depreciation expense	11,962,199	10,738,546
Total operating expenses	48,112,112	42,814,028
Operating income	18,426,572	18,392,492
Nonoperating revenues:		
Interest earned and miscellaneous	9,260,625	6,565,701
Nonoperating expenses:		
Amortization of refunding bond expense	87,044	87,044
Interest expense:		
Revenue bonds – Note I	15,764,141	12,659,761
Purchase of equipment	980	7,013
Annexation or purchase of water systems	487,552	541,024
(Gain) loss on sale of fixed assets	(78,312)	1,017
Plastic yard piping program expenses – Note K	386,706	428,870
Total nonoperating expenses	16,648,111	13,724,729
NET INCOME	11,039,086	11,233,464
Retained earnings, beginning of year	132,922,213	121,688,749
Retained earnings, end of year	$143,961,299	$132,922,213

See notes to financial statements.

Comparative Statement of Cash Flows

	Year Ended December 31 1989	1988
Cash Flows From Operating Activities		
Operating Income	$ 18,426,572	$ 18,392,492
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	11,962,199	10,738,546
Changes in assets and liabilities:		
Accounts receivable	(1,354,040)	(1,593,995)
Inventory	(224,156)	38,757
Prepaid expenses	(41,867)	(40,049)
Accounts payable	188,668	(747,387)
Sewer service collections due to City of San Antonio and others	(1,860,857)	680,388
Accrued vacation pay	214,221	(175,536)
Sundry payables and accruals	2,637,598	1,052,770
Customers' deposits payable	169,397	(1,924,454)
Deferred compensation payable	289,957	217,657
Net Cash provided by operating activities	30,407,692	26,639,189
Cash Flows From Noncapital Financing Activities		
Payments on Plastic Yard Piping Program	(386,706)	(428,870)
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of fixed assets	107,000	–
Payments for property, plant and equipment	(31,817,637)	(19,812,986)
Proceeds from Prior Lien Water Revenue Bonds, Series 1989	28,000,000	–
Proceeds from notes payable	45,811	–
Payments to City of San Antonio for debt of acquired water districts – principal	(228,351)	(273,170)
Payments to City of San Antonio for debt of acquired water districts – interest	(377,911)	(541,024)
Payments of notes payable – principal	(589,564)	(655,844)
Payments of notes payable – interest	(112,668)	(7,013)
Retirement of revenue bonds outstanding	(5,490,000)	(5,020,000)
Payment of interest on revenue bonds outstanding	(16,662,681)	(15,652,671)
Net cash used in capital and related financing activities	(27,126,001)	(41,962,708)
Cash Flows From Investing Activities		
Purchase of investments	(194,443,480)	(165,203,207)
Maturity of investments	182,255,691	187,993,983
Interest income on investments	8,852,589	6,228,574
Net cash provided by (used in) investing activities	(3,335,200)	29,019,350
Net Cash Increase (Decrease)	(440,215)	13,266,961
Cash and cash equivalents, beginning of year	18,303,419	5,036,458
Cash and cash equivalents, end of year	$ 17,863,204	$ 18,303,419
Cash and cash equivalents, end of year:		
Unrestricted	$ 3,086,029	$ 4,485,483
Restricted		
Construction Funds	9,140,531	8,350,689
Customers' deposits	5,636,644	5,467,247
	$ 17,863,204	$ 18,303,419

Noncash Capital and Financing Activities

The Board received $12,197,576 in 1989 and $6,537,139 in 1988 in contributions in aid of construction.

See notes to financial statements.

Notes to Financial Statements

December 31, 1989 and 1988

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management of the System: As specified by City Ordinance No. 52091, adopted April 24, 1980, the complete management and control of the System has been vested 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).

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. 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 an original maturity 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 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 leave.

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

Cash Flows Statement: In September 1989, the Governmental Accounting Standards Board (GASB) issued Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." GASB Statement No. 9 requires the presentation of a statement of cash flows and certain other disclosures. Although GASB Statement No. 9 is effective for financial statements for fiscal years beginning after December 15, 1989, the Board has elected earlier compliance and accordingly, has included a statement of cash flows prepared in accordance with the new standard and the 1988 Statement of Changes in Financial Position has been restated.

For purposes of the statements of cash flows, the Board considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

Reclassifications: Certain 1988 amounts have been reclassified to conform to 1989 presentations.

NOTE B. CASH 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, obligations guaranteed or insured by 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 are in a single financial institution and are carried at cost.

	December 31, 1989	
	Carrying Amount	Bank Balance
Deposits insured by FDIC	$ 200,000	$ 200,000
Deposits collateralized by securities held by Federal Reserve Branch in Board's name	17,663,204	19,936,972
	$ 17,863,204	$ 20,136,972

	December 31, 1988	
	Carrying Amount	Bank Balance
Deposits insured by FDIC	$ 200,000	$ 200,000
Deposits collateralized by securities held by Federal Reserve Branch in Board's name	18,103,419	20,258,313
	$ 18,303,419	$ 20,458,313

Investments: The Board has included as investments, certificates of deposit with an original maturity of over 90 days. All certificates of deposit classified as investments at December 31, 1989 and 1988 were held in a single financial institution. All other Board investments at December 31, 1989 and 1988 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 yearend. 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, 1989 and 1988.

As of December 31, 1989

	Category 1	Category 2	Category 3	Carrying Amount
Certificates of deposit over 90 days in original maturity	$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

As of December 31, 1988

	Category 1	Category 2	Category 3	Carrying Amount
Certificates of deposit over 90 days in original maturity	$13,993,835	$ —	$ —	$ 13,993,835
US Treasury Securities	55,638,784	—	—	55,638,784
Investments Administered By ICMA	—	—	1,536,368	1,536,368
	$69,632,619	$ —	$1,536,368	$ 71,168,987

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, 1989 and 1988 that are considered defeased in 1980 are $25,075,000 and $28,040,000, 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, 1989 and 1988.

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 equal to 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 bonds 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 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 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, 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

Components of utility plant are summarized as follows:

	1989	1988
Structures and improvements	$ 47,177,916	$ 36,587,711
Pumping and purification equipment	18,620,046	13,721,946
Distribution and transmission system	395,443,453	361,255,297
Equipment and machinery	10,812,195	9,795,524
Furniture and fixtures	2,249,123	1,189,804
Central heating and cooling plant	6,987,757	6,959,795
	$ 481,290,490	$ 429,510,077

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

The Board's portion of indebtedness assumed by the City of San Antonio from annexations of various water districts totaled $4,759,462 and $4,987,813 at December 31, 1989 and 1988, respectively.

Annual Debt Service Requirements

Due to City of San Antonio for Annexations of Water Districts

Year Ending December 31	Interest	Principal	Total
1990	$ 363,482	$ 217,486	$ 580,968
1991	348,947	192,113	541,060
1992	336,137	201,547	537,684
1993	323,082	163,348	486,430
1994	311,751	150,857	462,608
Thereafter	2,627,101	3,834,111	6,461,212
	$ 4,310,500	$ 4,759,462	$ 9,069,962

The Board has various notes payable to water companies and suppliers at yearend. 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 $1,147,202 and $1,690,955 at December 31, 1989 and 1988, respectively.

Annual Debt Service Requirements

Notes Payable

Year Ending December 31	Interest	Principal	Total
1990	$ 79,959	$ 419,889	$ 499,848
1991	46,675	420,848	467,523
1992	13,311	299,300	312,611
1993	295	7,165	7,460
	$ 140,240	$ 1,147,202	$ 1,287,442

NOTE G. REVENUE BONDS

Prior Lien Water System Revenue Bonds, comprised of Series 1980, Series 1981, Series 1982, Series 1983, Series 1984, Series 1986, Series 1986-A, Series 1987, and Series 1989, outstanding in the amounts of $180,600,000 and $156,755,000 at December 31, 1989 and 1988, 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, 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%. At December 31, 1988, these bonds were due in varying amounts, from a low of $3,301,650 in 2012 to a high of $16,785,671 in 1989, including interest at rates of 7.0% to 12.75%

Water System Revenue Refunding Bonds Series 1980, outstanding in the amounts of $28,265,000 and $29,600,000 at December 31, 1989 and 1988, 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, 1989, these bonds are 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%. At December 31, 1988, these bonds were due in varying amounts, from a low of $3,762,000 in 2001 to a high of $3,871,750 in 1989, including interest at rates of 7.9% to 9.0%.

Annual Debt Service Requirements

Revenue Bonds

Year Ending December 31	Revenue Refunding Bonds Series 1980	Prior Lien Revenue Bonds Series 1980,1981,1982, 1983, 1984,1986,1986-A, 1987 and 1989	Total All Revenue Bonds
1990	$ 3,865,750	$ 19,148,463	$ 23,014,213
1991	3,857,063	19,157,288	23,014,351
1992	3,854,150	19,120,694	22,974,844
1993	3,844,550	19,071,989	22,916,539
1994	3,842,200	19,100,489	22,942,689
Thereafter	26,586,062	254,790,020	281,376,082
	$ 45,849,775	$ 350,388,943	$ 396,238,718
Principal	$ 28,265,000	$ 180,600,000	$ 208,865,000
Interest	17,584,775	169,788,943	187,373,718
	$ 45,849,775	$ 350,388,943	$ 396,238,718

NOTE H. DEFEASED LONG TERM DEBT

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 defeased bonds are not included in the Board's financial statements. At December 31, 1989 and 1988, $52,325,000 of these defeased bonds remain outstanding. See Note C for other defeased long term debt.

NOTE I. CAPITALIZED INTEREST COSTS

Interest costs incurred on revenue bonds totaled $16,937,292 in 1989 and $15,575,721 in 1988 of which $1,173,151 and $2,915,960, respectively was capitalized as part of the cost of the Board's newly constructed utility plant additions.

NOTE J. CONTINGENCIES AND COMMITMENTS

The Board is the subject of various claims and litigation which have risen in the ordinary course of 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 $58,200,000 at December 31, 1989. Funding of this amount will come from available revenues of the System, contributions from developers and restricted assets.

The Board has designated $300,000 of the reserved retained earnings for self insurance purposes to protect it against physical or property losses.

NOTE K. 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 $386,706 and $428,870 in 1989 and 1988, 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 L. 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 out of the latest ten prior to retirement. The normal retirement benefit under the Principal Mutual Contract is; 1.2% of the Average Compensation, as defined, times years of credited service not in excess of 25 years, plus .75% of the Average Compensation times years of credited service in excess of 25 but less than 35 years, plus .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 of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 500 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 actuarially constraints also in the statutes.

The contribution rate for the employees is 3% of salary, and the Board matching percent is currently 2.93%, 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 being amortized over the 25-year period which began January, 1989. 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 1989 and 1988 were $18,463,502 and $17,264,654, respectively. The Board's contributions were based on covered payroll of $17,469,159 and $16,348,231 in 1989 and 1988, respectively.

Both the Board's and the employee's contributions were made to TMRS in 1989 and 1988 as required. The contribution amounts are presented below.

	1989	1988
Employer Contribution	$ 511,846	$487,177
Employee Contribution	524,075	490,448
Employer Contribution Rate	2.93%	2.98%

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 5 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, 1988. 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 103.6% of book value as of December 31, 1988.

Pension Benefit Obligation

Annuitants currently receiving benefits	$ 1,667,286
Terminated employees	1,347,401
Current employees:	
Accumulated employee contributions including allocated invested earnings	6,631,754
Employer-financed vested	6,180,747
Employer-financed nonvested	733,095
Total	16,560,283
Net Assets Available for Benefits, at Book Value	13,090,447
Unfunded Pension Benefit Obligation	$ 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 actuarially determined Board contribution rate are the same as those used to compute the pension benefit obligation. The numbers above reflect changes in actuarial assumptions since the previous actuarial valuation, which had the effect of decreasing the pension benefit obligation by $1,274,739. Because of the one-year lag between the actuarial valuation date and the calendar year when the newly calculated rate goes into effect the new actuarial assumptions will first affect the 1990 contribution rate for the Board. The numbers above also reflect the adoption of changes in the plan since the previous actuarial valuation, which had the effect of increasing the unfunded pension benefit obligation by $197,701.

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 $16,647,285 and $16,383,724 for 1989 and 1988, 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 vesting benefits as follows:

Years of Service	Vested Percentage
Less than 10	0%
10	50%
11	60%
12	70%
13	80%
14	90%
15 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 and 1988. 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 was $942,431 as stated on the Report of Actuarial Valuation dated January 1, 1989 computed as follows:

Pension Benefit Obligation	January 1, 1989
Terminated employees not yet receiving benefits	$ 580,885
Current Employees:	
Accumulated employee contributions including allocated investment income	N/A
Employer-financed vested	4,975,717
Employer-financed nonvested	4,127,513
Total Pension Benefit Obligation	9,684,115
Net assets available for benefits (market value)	8,741,684
Unfunded Pension Benefit Obligation	$ 942,431

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. decrease in the Normal Cost of $33,037;
2. increase in the Unfunded and Frozen Initial Liabilities of $565,659;
3. increase in Present Value of Vested Benefits of $553,315.
4. increase in Present Value of non-vested Benefits of $659,991.

Actuarially Determined Contribution Requirements and Contributions Made: The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method 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 1989 and 1988 are presented as follows:

	1989	1988
Minimum contribution	$ 919,303	$ 908,711
Contribution to fund Normal Cost and Unfunded Frozen Initial Liability over 30 Years	$ 1,214,854	$ 1,185,687
As % of annualized compensation @ Jan 1	7.3%	7.2%
Normal Cost	$ 430,968	$ 460,579
As % of annualized compensation @ Jan 1	2.6%	2.8%
Unfunded Frozen Initial Liability	$ 8,929,750	$ 8,364,091

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

The Board's contribution to the plan was $1,122,429 for plan year 1988. Because of the changes in the plan, an actuarial valuation was not available until February 1990. Therefore no contribution was made in 1989; however, an accrual of $1,200,000 was made in 1989 in anticipation of the contribution. The Board does not make contributions based on the above actuarially computed amounts. The Board contributes the actuarially computed normal cost plus interest on the Unfunded Frozen Initial Liability, and the normal cost for the year. The Board's expense for 1989 and 1988 represent 7.2% and 6.85%, 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 95 of the Board's Component Unit Financial Report. Certain trend information for the most current three years is presented below.

	1989	1988	1987
Net assets available for benefits	$ 8,741,684	$ 5,490,317	$ 4,321,093
Pension Benefit Obligation	$ 9,684,115	$ 6,348,627	$ 5,781,108
Net assets available for benefits as % of pension benefit obligation	90.3%	86.5%	74.7%
Unfunded pension benefit obligation	$ 942,431	$ 858,310	$ 1,460,015
Annual Covered Payroll	$16,647,285	$16,383,724	$15,375,400
Unfunded pension benefit obligation as % of covered salaries and wages	5.7%	5.2%	9.5%
Board contribution or provision	$ 1,200,000	$ 1,122,429	$1,022,010
Board contribution as % of covered salaries and wages	7.2%	6.9%	6.6%

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 normal 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 $433,501 and $214,374 in 1989 and 1988, respectively.

Comparative Schedule of Revenues and Their Disposition In Accordance With City Ordinance No. 52091

	Year Ended December 31 1989	1988
REVENUES		
Operating revenues:		
Metered water sales	$59,590,749	$54,118,509
Customers' penalties	1,038,388	1,305,963
Chilled water and steam sales	2,794,633	2,791,387
Fire protection and miscellaneous	3,114,914	2,990,661
	66,538,684	61,206,520
Nonoperating revenues	9,260,625	6,565,701
TOTAL REVENUES	$75,799,309	$67,772,221
DISPOSITION OF REVENUES		
Maintenance and operation:		
Waterworks system	$35,658,066	$31,670,251
Chilled water and steam system	1,794,301	1,694,394
	37,452,367	33,364,645
Operating reserve requirement	320,000	400,000
Revenue bond debt requirements:		
Interest costs	16,937,292	15,575,721
Retirement of bonds	6,007,502	5,363,333
Reserve funds provision	1,665,214	1,671,544
	24,610,008	22,610,598
Capital requirements:		
Capital outlay	1,692,723	274,880
Equipment additions	(45,237)	144,732
	1,647,486	419,612
Other debt service requirements:		
Debt service on annexed water systems	598,041	646,134
Debt service on purchased water systems	680,478	722,402
Debt service on equipment purchases	21,009	95,535
	1,299,528	1,464,071
TOTAL REQUIREMENTS	65,329,389	58,258,926
Revenue available for construction and contingencies	10,469,920	9,513,295
TOTAL DISPOSITION OF REVENUES	$75,799,309	$67,772,221

Summary of Revenue Debt Charges Until Maturity

Calendar Year	Total	December 31, 1989 Annual Requirements to Retire Interest	Principal	Principal Balance Outstanding
				$ 208,865,000
1990	$ 23,014,213	$ 16,779,213	$ 6,235,000	202,630,000
1991	23,014,351	16,179,351	6,835,000	195,795,000
1992	22,974,844	15,534,844	7,440,000	188,355,000
1993	22,916,539	14,851,539	8,065,000	180,290,000
1994	22,942,689	14,142,689	8,800,000	171,490,000
1995	22,898,820	13,388,820	9,510,000	161,980,000
1996	22,891,120	12,566,120	10,325,000	151,655,000
1997	22,800,186	11,670,186	11,130,000	140,525,000
1998	22,729,940	10,694,940	12,035,000	128,490,000
1999	22,718,213	9,643,213	13,075,000	115,415,000
2000	22,725,963	8,520,963	14,205,000	101,210,000
2001	22,028,358	7,338,358	14,690,000	86,520,000
2002	18,100,788	6,265,788	11,835,000	74,685,000
2003	14,219,253	5,444,253	8,775,000	65,910,000
2004	13,955,768	4,725,768	9,230,000	56,680,000
2005	11,600,741	4,060,741	7,540,000	49,140,000
2006	8,461,813	3,571,813	4,890,000	44,250,000
2007	8,551,957	3,171,957	5,380,000	38,870,000
2008	8,664,722	2,729,722	5,935,000	32,935,000
2009	8,800,587	2,240,587	6,560,000	26,375,000
2010	8,924,509	1,704,509	7,220,000	19,155,000
2011	9,043,731	1,118,731	7,925,000	11,230,000
2012	6,210,201	610,201	5,600,000	5,630,000
2013	2,971,750	311,750	2,660,000	2,970,000
2014	3,077,662	107,662	2,970,000	–
	$ 396,238,718	$ 187,373,718	$ 208,865,000	

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
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
1980	10,619,835	5,372,640	1.98	1,478,438	7.18

Financial and Statistical Information Compared With the Nine Preceding Years (Unaudited)

Operating Results	1989	1988	1987
Metered Water Sales	$ 59,590,749	$ 54,118,509	$ 48,398,245
Metered Water Sales Per 1,000 Gallons – Cents	96.3	87.1	86.5
Metered Water Sales Per Customer	$ 250.80	$ 235.47	$ 213.13
Water Service Operating Expense	$ 35,658,066	$ 31,670,251	$ 26,914,526
Water Service Operating Expense Per 1,000 Gallons – Cents	57.9	51.0	48.1
Water Service Expense Per Customer	$ 150.64	$ 137.80	$ 118.07
Financial Data			
Total Revenue	$ 75,799,309	$ 67,772,221	$ 62,166,837
Total Operating Expense Before Depreciation	36,149,913	32,075,482	27,108,873
Depreciation Expense	11,962,199	10,738,546	9,867,879
Debt Service and Reserve Funds Requirements	24,610,008	22,610,598	20,635,261
Total Utility Plant	528,018,074	487,827,306	445,171,253
Accumulated Allowance for Depreciation	104,124,948	95,246,918	86,562,439
Net Additions to Utility Plant in Service	43,896,020	44,709,525	49,155,351
Inventory	1,690,675	1,466,519	1,505,276
Bonded Debt	208,865,000	186,355,000	191,275,000
Municipal Equity (including Reserves)	295,668,514	272,431,852	254,661,249
Interest and Sinking Fund	4,177,501	3,659,999	3,316,666
Reserve Funds	16,338,184	14,672,970	13,001,425
Improvement and Contingency Fund	14,983,242	17,173,577	27,224,327
Pledged Revenue	39,649,396	35,696,739	35,057,964
Maximum Annual Debt Requirements	$ 23,014,351	$ 20,657,421	$ 20,672,671
Times Debt Coverage Ratio	1.72	1.73	1.70
Other Statistics			
Water Pumped – Million Gallons	61,638	62,152	55,932
Number of Wells in Service	93	91	87
Average Daily Pumpage – Million Gallons	168.9	169.8	153.2
Maximum Daily Pumpage – Million Gallons	269.3	248.2	269.9
Maximum Hour Pumpage (Daily Rate) – Million Gallons	460.8	354.4	440.0
System Pumping Capacity – Million Gallons Day	797.2	792.7	721.7
Overhead Storage Capacity – Million Gallons	46.5	35.5	35.9
Total Storage Capacity – Million Gallons	113.4	102.4	95.2
Metered Usage – Million Gallons	57,558	55,595	51,034
Annual Rainfall – Inches	22.14	19.01	37.96
Customers at End of Year	236,709	229,835	227,946
Average use Per Customer – Thousand Gallons	243.4	242.8	223.7
Miles of Main Installed	133.34	84.62	98.43
Miles of Main Replaced and Abandoned	40.90	23.30	30.10
Miles of Main in Place	3,458	3,365	3,304
New Services Installed	1,891	1,340	3,312
Fire Hydrants Installed (net of Hydrants Removed)	518	394	479
Fire Hydrants in Place	16,458	15,940	15,546
Number of Employees at December 31	892	884	895
Total Salaries and Wages Paid	$ 18,463,502	$ 17,264,654	$ 16,214,025

1986	1985	1984	1983	1982	1981	1980
$ 47,952,177	$ 40,200,150	$ 40,413,918	$ 30,837,738	$ 29,649,581	$ 22,904,499	$ 20,842,317
82.1	70.4	64.8	55.5	49.9	45.3	37.7
$ 212.22	$ 184.49	$ 191.74	$ 150.23	$ 151.84	$ 123.12	$ 115.22
$ 26,733,316	$ 25,018,242	$ 25,394,809	$ 21,608,895	$ 19,823,093	$ 16,507,398	$ 14,459,112
45.8	43.8	40.7	38.9	33.4	32.6	26.2
$ 118.31	$ 114.81	$ 120.49	$ 105.27	$ 103.01	$ 88.74	$ 79.93
$ 73,013,370	$ 51,032,325	$ 49,816,468	$ 38,565,205	$ 38,470,266	$ 29,687,827	$ 25,426,090
26,919,510	25,622,275	26,017,200	22,828,121	21,086,766	17,724,877	14,806,256
8,770,272	8,858,783	7,931,553	7,186,739	6,646,780	5,379,781	4,902,532
19,468,573	16,797,274	14,642,620	11,712,031	8,896,467	6,517,591	4,033,880
398,260,089	349,347,272	307,353,866	277,939,595	248,943,341	225,021,065	203,147,097
78,938,749	71,517,960	65,331,503	59,359,406	53,983,632	51,083,581	47,058,000
50,262,300	44,665,732	31,373,727	30,807,219	29,185,515	23,228,164	13,788,551
1,310,827	1,342,356	1,244,424	1,108,001	1,215,579	1,367,219	1,249,072
165,730,000	128,120,000	130,585,000	102,105,000	83,715,000	66,615,000	52,495,000
226,024,871	191,391,371	169,673,990	153,848,369	146,688,777	138,816,653	129,337,704
2,868,484	1,810,000	1,624,998	1,346,667	1,073,333	866,666	586,667
11,436,863	9,924,887	8,433,196	7,172,812	6,240,306	5,794,520	5,515,428
22,698,627	2,497,076	825,553	100,341	5,928,909	2,574,753	1,507,824
46,093,860	25,410,050	23,799,268	15,737,084	17,383,500	11,962,850	10,619,834
$ 18,028,648	$ 15,158,478	$ 15,160,349	$ 11,634,845	$ 9,502,277	$ 7,184,835	$ 5,372,640
2.56	1.68	1.57	1.35	1.83	1.66	1.98
58,423	57,126	62,378	55,557	59,364	50,584	55,272
85	82	79	78	78	71	71
160.1	156.5	170.9	152.5	162.6	138.6	151.0
306.6	261.4	255.8	247.5	297.8	238.3	274.6
451.9	355.1	355.0	342.6	416.6	303.1	356.9
701.7	690.6	660.6	652.3	648.2	625.3	595.1
35.6	31.0	28.0	28.0	28.0	27.9	27.9
95.2	89.9	86.9	86.9	86.9	86.8	79.3
50,947	49,872	52,293	45,413	46,532	40,133	43,457
42.73	41.43	25.95	26.10	22.93	36.03	24.23
227,598	220,596	214,852	207,908	201,370	188,969	183,084
225.5	228.4	248.1	221.3	238.3	215.7	240.2
158.29	150.77	129.47	155.59	61.15	105.72	112.11
19.02	41.9	30.0	11.25	15.63	21.70	19.61
3,236	3,097	2,988	2,888	2,743.60	2,698.04	2,614.02
6,182	9,848	8,159	8,366	3,512	5,009	6,726
848	725	616	708	307	432	454
15,067	14,219	13,494	12,878	12,157	11,830	11,398
889	850	842	819	865	746	772
$ 15,765,107	$ 14,982,119	$ 13,818,146	$ 13,019,414	$ 12,820,385	$ 10,477,578	$ 10,148,931

1989 Department Directors

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

Compensation
Marcia L. Krolick, B.A.
7 years of service

Credit and Collection
Charles J. Watcher, Jr., B.B.A.
6 years of service

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

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

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

Information Services
Ray E. Walls, M.B.A., B.A., D.B.A.
1 year of service

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

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

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

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

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

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

Production
Donald L. Pollard, P.E., B.S., M.E.
25 years of service

Public Relations
John Boggess, B.A.
1 year of service

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

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

Training
Thomas E. Craig, B.S., B.S.C.E., M.S.C.E.
6 years of service

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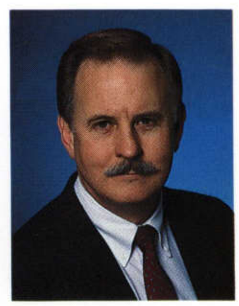
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