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***FINANCIAL SECTION***

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT OF INDEPENDENT AUDITORS

Members of the Board  
San Antonio Water System  
San Antonio, Texas

We have audited the accompanying basic financial statements of the San Antonio Water System (the System), a component unit of the City of San Antonio, Texas, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the System, as of December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 14 and the Schedules of Funding Progress on page 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The accompanying supplemental information listed under "Description and Schedules of Funds", "Supplemental Schedules", and "Bonded Debt Schedules and Analyses" in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the "Introduction" and the schedules listed under the "Statistical Section" in the accompanying table of contents was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Garza/Gonzalez*  
*& Associates*

May 6, 2005

## Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides a narrative overview and analysis of financial activities and performance as detailed in the Comprehensive Annual Financial Report ("CAFR") for the fiscal year ending December 31, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the System's financial statements including the notes to the financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The System's total net assets increased by \$64.6 million over the course of the year ended December 31, 2004.
- Revenues from all sources including capital recovery contributions, totaled \$294.0 million, resulting in an \$8.7 million favorable variance from budgeted revenues of \$285.3 million.
- Total Operating Revenues for 2004 were \$262.7 million including \$72.9 million from Water Delivery Services, \$78.6 million from Water Supply Services, \$99.2 million from Wastewater Services, and \$12.0 million from Chilled Water and Steam Services.
- During the year, the System's operating expenses were \$153.9 million before depreciation, which is less than the \$166.8 million budgeted.
- Debt service for the year ended December 31, 2004, totaled \$71.8 million and reflected a \$6.3 million favorable variance to budget.
- Capital expenditures for the year totaled \$168.8 million bringing the total expenditures on construction in progress to \$848.2 million on budgets totaling \$1.2 billion.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented in this annual report consist of two parts:

- Basic Financial Statements – provide both long-term and short-term information about the System's overall financial status and the results of operations of the utility.
- Notes to the financial statements – provide key information to certain detailed data found in the financial statements. The notes to the financial statements can be found on pages 20-47.

This report also includes:

- Required supplementary information and other financial information – *the required supplementary information* concerning the System's progress in funding its obligations to provide pension benefits to its employees can be found on page 48 of this report. Other schedules that provide information on the individual parts of the utility, reporting the System's operation in more detail than the basic financial statements are also presented.
- Budgetary information is presented on page 62.
- Statistical Section – includes tables of various financial and statistical information.
- Federal Award Section – Information related to the single audit act in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations."

**Basic Financial Statements:** The basic financial statements report information about the System, as a whole, using accounting methods similar to those used by private-sector companies. As a proprietary fund, the System has prepared traditional income statements and balance sheets using private-sector accounting practices under a combination of Financial Accounting Standards Board (“FASB”) and GASB rules as prescribed in GASB Statement No. 20 for proprietary funds. Additionally, the System maintains detailed asset records that provide information on the individual additions to capital assets.

The reports that the System has prepared are in accordance with the requirements of GASB Statement No. 34 as “business-type activities.” Activities such as the System’s utility services are considered “business-type” not solely because they resemble those performed by the private sector but because there is an exchange involved between the receiver and provider of the service. For business-type activities, there is frequently a direct relationship between the charge for the service and the service itself. This exchange relationship causes users of financial information to focus on the costs of providing the service, the revenues obtained from the service, and the difference between the two.

The statement of net assets includes all of the System’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets on an accrual basis. The statement of cash flows reflects cash flows for operating, financial, capital and related financing, and investing activities. Contributions in aid of construction are reported as increases in the statement of revenues, expenses, and changes in net assets. The basic financial statements report the System’s net assets and how they have changed. Net Assets is the difference between the System’s assets and liabilities and is one way to measure the System’s financial position. The basic financial statements can be found on pages 15-19.

**Combining Schedules:** The System has established certain self-balancing funds to comply with state law and bond covenants for purposes of internal control and reporting. The “fund” financial schedules keep track of specific sources of funding and spending for particular purposes and provide more detailed information about the System’s most significant funds, and not the System as a whole. These combining schedules are included as supplementary information in the “Other Financial Information” section of the CAFR.

The System is a Proprietary Fund as it is a self-supporting revenue based utility system.

- *Proprietary funds* – Services for which the System charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long- and short-term financial information and use the accrual basis of accounting and the flow of economic resources measurement focus.
  - The System’s enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows.
  - The System uses internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the System’s other programs.

## FINANCIAL ANALYSIS AS A WHOLE

The net assets of the System are the result of recording total liabilities against total assets and reporting the net assets in component categories in accordance with the GASB Statement No. 34 requirements.

	31-Dec-04	31-Dec-03 (Restated)	31-Dec-02 (Restated)
<b>Total Assets</b>	\$ 2,557,257,696	\$ 2,403,469,732	\$ 2,173,293,434
<b>Total Liabilities</b>	<u>1,429,413,857</u>	<u>1,340,216,983</u>	<u>1,165,494,456</u>
<b>Net Assets</b>	<u>1,127,843,839</u>	<u>1,063,252,749</u>	<u>1,007,798,978</u>
<b>Net Assets:</b>			
<b>Invested in Capital Assets</b>			
<i>net of related debt</i>	1,041,888,473	972,501,026	1,472,935,376
<b>Restricted for:</b>			
<i>Debt Service</i>	11,705,961	5,156,111	3,676,637
<i>Conservation</i>	2,503,665	5,823,169	7,877,185
<i>Unrestricted</i>	<u>71,745,740</u>	<u>79,772,443</u>	<u>(476,690,220)</u>
<b>Total Net Assets</b>	<u>\$ 1,127,843,839</u>	<u>\$ 1,063,252,749</u>	<u>\$ 1,007,798,978</u>

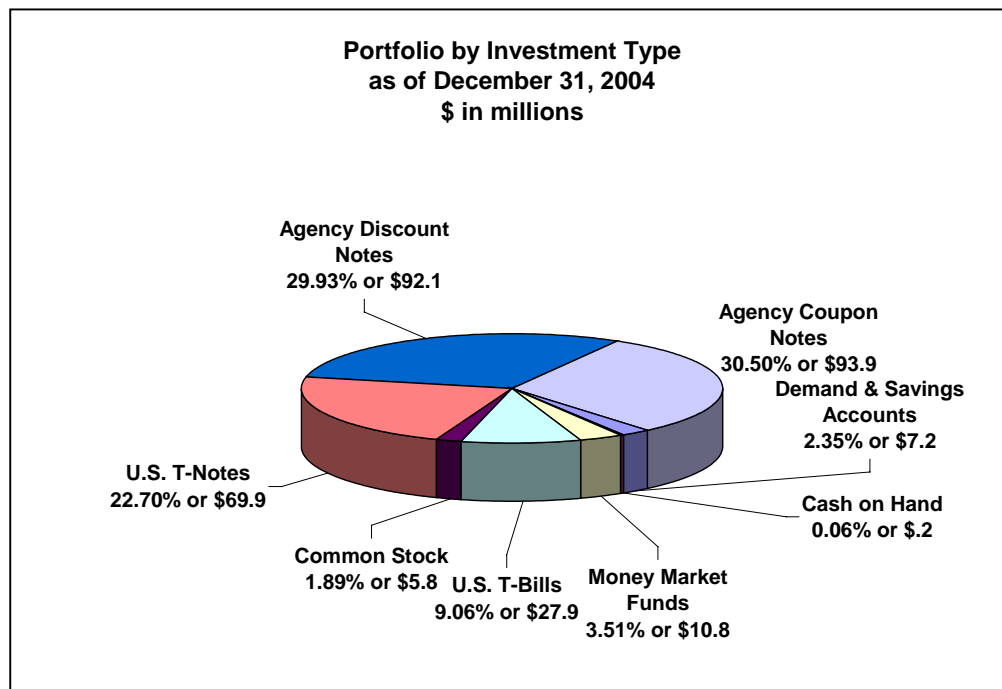
**Assets:** The System's total assets were \$2.6 billion, of which 85.6% or \$2.2 billion were capital assets. Gross capital assets increased \$228.4 million during the year ended December 31, 2004, with a change in net depreciation of \$54.8 million resulting in a net increase of \$173.6 million in total capital assets.

	31-Dec-04	31-Dec-03 (Restated)	31-Dec-02 (Restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
<i>Investments</i>	\$ 43,542,026	\$ 24,135,583	\$ 11,849,102
<i>Accrued interest receivable</i>	1,211,378	1,911,099	1,771,192
<i>Accounts receivable net of allowances for uncollectible accounts</i>	32,036,818	28,115,867	25,869,201
<i>Inventory - materials and supplies</i>	4,537,892	4,858,272	4,522,952
<i>Prepaid expenses and other assets</i>	3,034,787	3,291,681	1,026,735
<b>Total current assets</b>	<u>84,362,901</u>	<u>62,312,502</u>	<u>45,039,182</u>
<i>Unamortized Refunding Bond Expenses</i>	10,659,959	9,349,728	7,971,670
<b>Restricted Current Assets</b>			
<b>Debt Service Fund:</b>			
<i>Cash &amp; cash equivalents</i>	72,704	-	58,772
<b>Construction Funds</b>			
<i>Cash &amp; cash equivalents</i>	15,737,966	38,397,197	54,451,465
<b>Conservation</b>			
<i>Investments</i>	2,503,665	5,823,169	7,877,185
<b>Other Restricted</b>			
<i>Investments</i>	-	774,069	-
<i>Common Stock</i>	5,819,192	4,707,723	5,819,192
<b>Customers' deposits</b>			
<i>Investments</i>	5,952,486	5,627,401	5,206,007
<b>Total current restricted assets</b>	<u>30,086,013</u>	<u>55,329,559</u>	<u>73,412,621</u>
<b>Total Current Assets</b>	<u>\$ 125,108,873</u>	<u>\$ 126,991,789</u>	<u>\$ 126,423,473</u>
<b>Noncurrent Restricted Assets</b>			
<b>Debt Service Fund:</b>			
<i>Investments</i>	\$ 18,784,661	\$ 11,467,153	\$ 9,592,637
<b>Construction Funds</b>			
<i>Investments</i>	205,161,582	235,119,355	265,720,952
<b>Other Restricted</b>			
<i>Investments</i>	10,194,614	5,605,706	-
<b>Total non-current restricted assets</b>	<u>234,140,857</u>	<u>252,192,214</u>	<u>275,313,589</u>
<i>Assets Held for Resale</i>	8,210,012	8,147,167	-
<b>Capital Assets</b>			
<i>Utility plant in service</i>	2,396,554,145	2,244,550,778	2,080,779,779
<i>Less allowance for depreciation/amortization</i>	798,456,941	743,691,802	688,081,572
	<u>1,598,097,204</u>	<u>1,500,858,976</u>	<u>1,392,698,207</u>
<i>Land and land rights</i>	82,338,637	87,053,949	73,623,621
<i>Construction in progress</i>	509,362,113	428,225,637	305,234,544
<b>Total capital assets (net of accumulated depreciation)</b>	<u>2,189,797,954</u>	<u>2,016,138,562</u>	<u>1,771,556,372</u>
<b>Total Noncurrent Assets</b>	<u>\$ 2,432,148,823</u>	<u>\$ 2,276,477,943</u>	<u>\$ 2,046,869,961</u>
<b>Total Assets</b>	<u>\$ 2,557,257,696</u>	<u>\$ 2,403,469,732</u>	<u>\$ 2,173,293,434</u>

**Cash & Investments:** The System's cash and investments totaled \$ 307.8 million at December 31, 2004, a decrease of \$23.9 million. The components of the balance are shown in the pie chart below. The unrestricted cash is maintained at a level defined by the requirements of Ordinance 75686 for an Operating Reserve equal to two months of the annual maintenance and operations budget. The balance of the Debt Service Fund is impacted by the timing of the payments for debt service that are paid on May 15 (principal and interest) and November 15 (interest only). Construction Fund balances decreased by \$52.6 million due to the ongoing expenditures related to construction initiatives combined with reduced levels of debt issued for construction purposes during 2004. The increase in the balance of Other Restricted Funds reflects the accumulation of customer deposits and reserves accumulated to fund the LCRA Project expected to be paid out in 2010.

	31-Dec-04	31-Dec-03 (Restated)	31-Dec-02 (Restated)
<b><i>Unrestricted</i></b>	\$ 43,542,026	\$ 24,135,583	\$ 11,849,102
<b><i>Debt Service Fund</i></b>	18,857,365	11,467,153	9,651,409
<b><i>Construction Fund</i></b>	220,899,548	273,516,552	320,172,417
<b><i>Other Restricted</i></b>	24,469,957	22,538,068	13,083,192
	<u>\$ 307,768,896</u>	<u>\$ 331,657,356</u>	<u>\$ 354,756,120</u>

Investments are classified as follows:



**Liabilities and Long Term Debt:** The current liabilities totaled \$69.9 million, an increase of \$13.0 million. The net increase is primarily due to an increase in the amount of revenue bonds payable in one year. Interest expense on long-term debt is accrued monthly and is reflected in the current liabilities payable from restricted funds.

	31-Dec-04	31-Dec-03 (Restated)	31-Dec-02
<b><i>Current Liabilities:</i></b>			
<i>Accounts payable and other</i>	\$ 12,830,586	\$ 12,521,834	\$ 10,505,842
<i>Sewer service collections payable</i>	256,013	209,660	-
<i>Capital leases and notes payable</i>	627,100	646,762	524,852
<i>Accrued vacation payable</i>	2,816,887	2,936,451	2,300,000
<i>Accrued payroll and benefits</i>	2,539,894	2,151,220	1,662,341
<i>Accrued claims payable</i>	2,477,402	2,317,236	1,184,314
<i>Accrued stormwater services</i>	1,669,929	32,409	1,564,400
<i>Sundry payables and accruals</i>	6,049,273	5,270,704	5,715,090
<b><i>Total Current Liabilities</i></b>	<u>29,267,084</u>	<u>26,086,276</u>	<u>23,456,839</u>
<b><i>Current Liabilities payable from Restricted Funds:</i></b>			
<i>Debt service fund</i>	7,151,404	6,311,042	5,974,772
<i>Construction funds</i>	10,996,564	11,147,268	5,317,276
<i>Customers' Deposits</i>	5,952,486	5,627,401	5,206,007
<i>Revenue bonds payable in one year</i>	16,505,000	7,735,000	5,515,000
<b><i>Total Current Liabilities payable from Restricted Funds</i></b>	<u>40,605,454</u>	<u>30,820,711</u>	<u>22,013,055</u>
<b><i>Total Current Liabilities</i></b>	<u>69,872,538</u>	<u>56,906,987</u>	<u>45,469,894</u>
<b><i>Noncurrent Liabilities</i></b>			
<i>Capital Leases and notes payable</i>	1,388,172	2,012,211	2,276,598
<i>Accrued vacation payable</i>	1,879,465	1,389,582	1,549,228
<i>Commercial paper notes</i>	238,400,000	269,000,000	255,000,000
<i>Revenue bonds payable after one year (net of unamortized expenses)</i>	1,117,873,682	1,010,908,203	861,198,736
<b><i>Total Noncurrent Liabilities</i></b>	<u>1,359,541,319</u>	<u>1,283,309,996</u>	<u>1,120,024,562</u>
<b><i>Total Liabilities</i></b>	<u>\$ 1,429,413,857</u>	<u>\$ 1,340,216,983</u>	<u>\$ 1,165,494,456</u>

The System has various capital leases for the acquisition of computer equipment and heavy equipment. During the year ended December 31, 2004, principal payments were made in the amount of \$308,155 decreasing the principal balance on the leases to \$273,057. No new leases were recorded in 2004.

The System has a note payable with City Public Service of San Antonio that had an original amount of \$4,640,000 and monthly payments of \$40,000 including interest. During the year ended December 31, 2004, principal and interest payments in the amount of \$480,000 were made. At December 31, 2004, the current and long-term principal balances were \$361,596 and \$1,380,619, respectively.

At December 31, 2004, the System had \$1.4 billion in total debt outstanding. The System had \$1.2 billion in revenue bonds outstanding and \$238.4 million in commercial paper notes outstanding. Additional information about the System's long-term debt is presented in Note G of the financial statements and in the section titled "Other Financial Information – Bonded Debt Schedules and Analyses."

The System also maintains two variable rate demand obligation bond programs established in 2003. An interest rate hedge agreement has been established with Bear Stearns that results in a synthetic fixed rate on the bonds. The total principal amount outstanding on the variable rate demand obligation bonds totaled \$120,515,000 as of December 31, 2004, which represents 17% of the total debt outstanding.

The System maintains a tax-exempt commercial paper program (TECP) in an authorized amount of \$350 million of which \$238.4 million has been issued. The remaining balance of authorized notes in the amount of \$111.6 million is available for Capital Improvement Projects. This program is used in the interim construction period of the capital improvement programs and it also serves as a mechanism to maintain a variable rate component in the overall debt portfolio. With the TECP short-term rates, savings from lower interest rate costs assisted in reducing overall borrowing expenses.

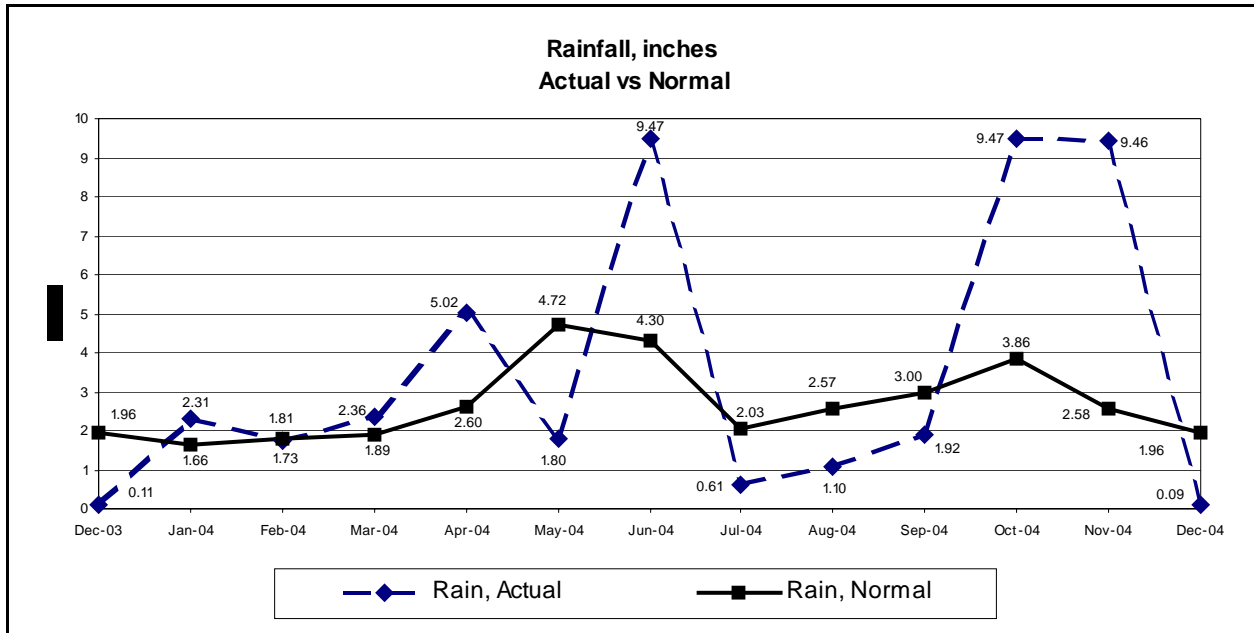
**Bond Ratings:** The System's revenue bonds maintain an "AA-" rating from Standard & Poor's and Fitch, and an "Aa3" rating from Moody's. The junior lien revenue bonds maintain an "A+" rating from Standard & Poor's, an "A" rating from Fitch, and an "A1" from Moody's. Commercial paper maintains ratings of "A1", "F1", and "P1" respectively for each of these three rating agencies.

**Revenues & Expenses and Change in Net Assets:** Revenues of the System are grouped into operating and non-operating activities and are reported by utility service. Total revenues of the System including operating, non-operating, and capital recovery fee capital contributions were \$294.0 million for the year ended December 31, 2004.

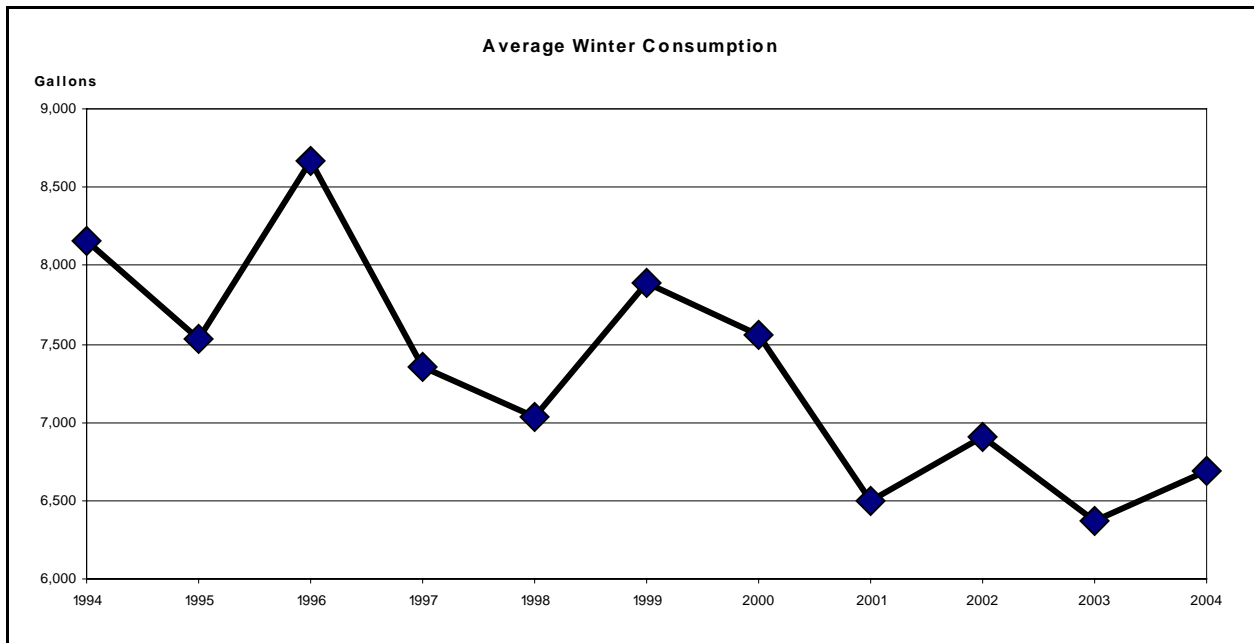
During 2004, the System recorded a payment in the amount of \$184,100 to the Greater Kelly Development Authority pursuant to the Agreement for Transfer and Operation of Potable Water Sanitary Sewer, Chilled Water and Central Steam at Kelly Air Force Base executed on July 2002. This amount represents 5% of the net cash receipts received by the System from the sale of chilled water and/or central steam within Kelly AFB. During 2003, this requirement was netted from the sale of chilled water & steam services and was not recorded as an expense.

	31-Dec-04	(Restated) 31-Dec-03	(Restated) 31-Dec-02
<b>Operating Revenues:</b>			
<i>Water delivery system</i>	\$ 72,888,054	\$ 65,163,910	\$ 58,873,352
<i>Water supply system</i>	78,546,461	76,044,416	76,167,052
<i>Wastewater system</i>	99,224,713	87,683,794	89,312,338
<i>Chilled water and steam system</i>	12,027,528	12,193,646	10,857,394
<b>Total operating revenues</b>	<b>262,686,756</b>	<b>241,085,766</b>	<b>235,210,136</b>
<b>Operating Expenses:</b>			
<i>Personal services</i>	74,416,616	70,792,292	66,167,106
<i>Contractual services</i>	69,126,680	71,084,521	64,567,758
<i>Material and supplies</i>	14,144,227	13,752,939	12,553,984
<i>Other charges</i>	15,474,823	14,869,519	9,932,952
<i>Less: Costs capitalized &amp; transferred to R&amp;R Fund</i>	(19,052,929)	(19,311,806)	(15,637,723)
<i>Internal service fund - net (gain) / loss</i>	(249,453)	1,555,089	(2,607,483)
<b>Total operating expenses before depreciation</b>	<b>153,859,964</b>	<b>152,742,554</b>	<b>134,976,594</b>
<i>Depreciation/amortization expense</i>	60,645,869	57,005,400	55,466,554
<b>Total operating expenses</b>	<b>214,505,833</b>	<b>209,747,954</b>	<b>190,443,148</b>
<b>Operating income</b>	<b>48,180,923</b>	<b>31,337,812</b>	<b>44,766,988</b>
<b>Non-operating Revenues</b>			
<i>Interest earned and miscellaneous</i>	6,703,218	7,187,584	7,547,353
<i>Net increase in the fair value of investments</i>	357,459	121,395	5,200,346
<b>Total nonoperating revenues</b>	<b>7,060,677</b>	<b>7,308,979</b>	<b>12,747,699</b>
<b>Non-operating Expenses</b>			
<i>Amortization of refunding bond expense</i>	499,745	430,295	379,943
<i>Amortized discount/premium/loss/expense</i>	1,485,132	1,487,573	2,061,770
<i>Other finance charges</i>	1,144,437	1,030,751	-
<b>Interest expense:</b>			
<i>Revenue bonds and commercial paper</i>	39,933,414	36,973,970	38,851,432
<i>Capital leases</i>	174,478	187,896	230,568
<i>(Gain)/Loss on sale of capital assets</i>	(131,277)	198,976	2,388,065
<i>GKDA Payment</i>	184,100	-	-
<i>Payments to the City of San Antonio</i>	7,101,972	6,607,897	6,227,400
<b>Total nonoperating expenses</b>	<b>50,392,001</b>	<b>46,917,358</b>	<b>50,139,178</b>
<b>Increase/(Decrease) in net assets, before capital contributions and special item</b>	<b>4,849,599</b>	<b>(8,270,567)</b>	<b>7,375,509</b>
<b>Capital contributions</b>			
<i>Plant Contributions</i>	45,302,059	52,055,111	53,763,959
<i>Capital Recovery Fees</i>	24,225,552	14,236,467	23,164,032
<b>Total Capital contributions</b>	<b>69,527,611</b>	<b>66,291,578</b>	<b>76,927,991</b>
<b>Special item - Note M</b>	<b>(9,786,120)</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>64,591,090</b>	<b>58,021,011</b>	<b>84,303,500</b>
<i>Net assets, beginning of year (restated) - Note N</i>	1,063,252,749	1,005,231,739	920,928,240
<b>Net Assets, end of year</b>	<b>\$ 1,127,843,839</b>	<b>\$ 1,063,252,749</b>	<b>\$ 1,005,231,740</b>

Revenues of the period were affected by higher than normal rainfall during the summer months. The chart below presents the rainfall as compared to normal precipitation during the reporting period.



Wastewater revenues are also affected by both rainfall and conservation. The following chart for the last ten years shows a steady decrease in the winter average used for the calculation of invoices for residential wastewater service.



**Maintenance and Operations Expense:** During the fiscal year ended December 31, 2004, the System's operating expenses were \$153.9 before depreciation/amortization expense, which is \$1.1 million greater than 2003. The table presents a three-year expense summary.

	31-Dec-04	Restated 31-Dec-03	Restated 31-Dec-02
<i>Personal Services</i>	\$ 74,416,616	\$ 70,792,293	\$ 66,167,106
<i>Contractual Services</i>	69,126,680	71,084,521	64,567,758
<i>Materials and Supplies</i>	14,144,227	13,752,939	12,553,984
<i>Other Charges</i>	15,474,823	14,869,519	9,932,952
<i>Interfund Transfers</i>	(19,052,929)	(19,311,806)	(15,637,723)
<i>Sub-total</i>	<u>154,109,417</u>	<u>151,187,466</u>	<u>137,584,077</u>
<i>Internal Service Fund net (gain) / loss</i>	(249,453)	1,555,089	(2,607,483)
<i>Total</i>	<u>\$ 153,859,964</u>	<u>\$ 152,742,555</u>	<u>\$ 134,976,594</u>

Personal Services costs were \$74.4 million for the year ended December 31, 2004, an increase of \$3.6 million from 2003. The increase was due to several factors including a 1.8% cost of living adjustment and compensation adjustments based on recommendations from a job market study.

Contractual Services decreased by \$2.0 million from 2003 due to a decrease in Utilities Expense resulting from decreased water pumpage from 2003 to 2004. Operating efficiencies and increased rainfall contributed to lower utility costs.

Materials and supplies increased by \$0.4 million from 2003 due to increased maintenance at the Dos Rios and Leon Creek Water Recycling Plants. Dos Rios WRC experienced higher maintenance costs on belt filter presses, which are nearing the end of their useful lives.

Interfund Transfers are costs that are capitalized for the construction activities of various organizational units. These costs totaled \$19.1 million for the year ended December 31, 2004 and include engineering and administrative work related to construction as well as construction costs of the field operations.

**Non-operating Expenses:** During the period, the System's non-operating expenses were \$50.4 million. Interest costs are the largest component of non-operating expenses. Total interest cost for the year related to revenue bonds and commercial paper was \$55.9 million with interest capitalization to construction totaling \$16.0 million resulting in a net interest expense of \$39.9 million.

## CAPITAL EXPENDITURES AND DEBT MANAGEMENT

Interest for the year ended December 31, 2004 totaled \$55.9 million including interest on all senior lien bonds, junior lien bonds, and subordinate lien bonds as well as commercial paper notes. Debt service requirements including principal payments totaled \$71.8 million for the year ended December 31, 2004. For detailed information concerning the System's debt, refer to pages 71-132.

Capital expenditures for the year ended December 31, 2004 totaled \$168.8 million bringing the total expenditures on construction in progress to \$848.2 million. Details of commitments and charges to date by utility are presented in the following table.

	Budget	Commitments	Charges to Date	Remaining Commitment
<i>Water Supply</i>	\$ 466,024,787	\$ 430,564,940	\$ 344,258,636	\$ 86,306,304
<i>Water Delivery</i>	315,665,424	283,664,628	234,831,777	48,832,851
<i>Wastewater</i>	359,927,657	306,004,174	259,358,767	46,645,407
<i>Chilled Water &amp; Steam</i>	16,392,660	10,397,939	9,743,102	654,837
<b>Total</b>	<u>\$ 1,158,010,528</u>	<u>\$ 1,030,631,681</u>	<u>\$ 848,192,282</u>	<u>\$ 182,439,399</u>

The System maintains a funding plan to accomplish its capital improvement program goals. The funding sources include long-term bonds, tax-exempt commercial paper, revenues and impact fees. Currently, these funds are maintained as restricted assets of the System in the Renewal and Replacement Fund and in the Project Fund.

## ECONOMIC OUTLOOK FOR THE FUTURE

A 2% growth in the customer base has been consistent for several years. It is expected that this trend will continue in the foreseeable future.

The System's multi-year financial plan includes the development of long-term water supplies and the continued maintenance of existing facilities. The System is currently evaluating ways to accomplish these goals in as an efficient manner as possible. In 2000, the City Council approved the water supply fee as a funding mechanism for the development of water supplies. This first-of-its-kind funding approval delineates the fees assessment on all potable water service for water usage in a five-year schedule as noted on page 146.

## **CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is provided to our citizens, taxpayers, customers, investors and creditors as a general overview of the System's financial condition and results of operation with a general explanation of the factors affecting the finances of the System. It is provided to demonstrate the System's accountability for the revenues it collects and the expenditures it makes for the services provided. If you have questions about this report or need additional financial information, contact:

Douglas P. Evanson, CPA  
Vice President and Chief Financial Officer  
San Antonio Water System  
PO Box 2449  
San Antonio, Texas 78298

Information about the San Antonio Water System can also be obtained through the Internet at [www.saws.org](http://www.saws.org).

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