

This section of the Bexar County comprehensive annual financial report presents management’s discussion and analysis (“MD&A”) of the financial performance of the primary government during the fiscal year ended September 30, 2004. The MD&A should be read in conjunction with the transmittal letter at the front of this report and the County’s basic financial statements following this section.

For information specific to the University Health System (the “System”), the discretely presented component unit of the County, please refer to the MD&A included in the separately issued financial statements of the System. A copy of those financial statements may be obtained by contacting the University Health System’s Financial Offices, 4502 Medical Drive, San Antonio, Texas 78229.

## **FINANCIAL HIGHLIGHTS**

### **Government-Wide:**

- The total government-wide assets of the County exceeded the liabilities at September 30, 2004 by \$411,721,388, and are reported as total net assets of the primary government. This is comparable to the previous year when assets exceeded liabilities by \$395,374,365. Of this amount, \$19,484,862 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors. Additionally, \$74,736,758 is restricted for specific purposes (restricted net assets), and \$317,499,768 is invested in capital assets, net of related debt.
- The government-wide total net assets increased \$16,347,023, including the restatement for the non-major governmental funds, during the fiscal year ending September 30, 2004. The increase was due to governmental activities (\$14,558,645) and to business-type activities (\$1,788,378) and dedication of these projects to the County.
- Total net assets of the primary government are comprised of:
  - 1) Capital assets net of related debt include land, buildings, improvements, roads, bridges, equipment, furniture and fixtures as well as construction in progress, net of accumulated depreciation:

September 30, 2004	\$317,499,768
September 30, 2003	\$296,830,750
  - 2) Net assets which are restricted by constraints imposed from outside the County such as debt obligations, regulations and/or federal and state laws:

September 30, 2004	\$74,736,758
September 30, 2003	\$70,815,450
  - 3) Unrestricted net assets represent the portion available to meet current requirements and obligations to the County’s creditors and citizens:

September 30, 2004	\$19,484,862
September 30, 2003	\$27,728,165

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

**Fund Financial Statements:**

- As of September 30, 2004, the County’s governmental funds reported combined fund balances of \$72,593,088. This compares to the prior year combined fund balances of \$95,605,840 (as restated - see below). Approximately 58% of the combined fund balances at September 30, 2004 (\$42,140,075) is available to meet the County’s current and future needs (unreserved fund balances).
- The total fund balance for the non-major governmental funds was \$22,041,323 at September 30, 2004 and \$24,127,050 at September 30, 2003. The fund balances for the non-major governmental funds were reported in the previous Comprehensive Annual Financial Report as \$19,174,549. During the current fiscal period, all agency and trust funds were re-evaluated in light of GASB pronouncements, and it was determined that several agency funds were in fact special revenue funds and supported the operating activities of the County as a whole. The activity and the fund balances for the fiscal year ended September 30, 2003 were restated for the current presentation. At September 30, 2004 \$20,280,573 is unreserved as compared to \$21,467,817 at September 30, 2003 (as re-stated).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$21,859,502, or 10% of total general fund expenditures for the year ended September 30, 2004.

**Long-Term Debt:**

- Bexar County’s total long-term debt (Bonds, Certificates of Obligation, and a Tax Anticipation Note) decreased \$11,470,463 or 4.01% of existing debt at the beginning of the fiscal year.

Governmental Activities	\$4,825,463	3.4%
Business Type Activities	\$6,645,000	4.6%

Total principal payments on outstanding debt were \$40,060,463. The County did issue \$14,090,000 in refunding bonds in February 2004 and \$14,500,000 in certificates of obligations. The refunding bond issue provided partial refunding for two currently outstanding bond issues. The certificates of obligations provided funding for construction and renovation projects.

- In November 2003 the voters approved the financing of a long range construction and refurbishing program for the County to be paid for using General Obligation Bonds:
 

\$ 47,990,000	To be used to construct County detention facilities
\$ 40,581,000	To be used to support County road projects
\$ 5,925,000	To be used to support County park improvements
\$ 4,750,000	To support the construction of a County emergency operation center and a senior citizens center

During the year ending September 30, 2004, none of these bonds were sold. However, in October 2004 the County sold \$15,480,000 to finance the construction activity for the coming fiscal year. Additionally, the Commissioners’ Court issued separate orders to provide for the issuance of \$23,960,000 of Certificates of Obligation - Series 2004 to be used to provide funding for the reimbursement resolution passed by the Court during the current fiscal year and to

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

provide financing for the completion of major road projects in the southern part of the County, and \$3,595,000 in Flood Control Certificates to provide funding for projects in fiscal year 2005.

Currently there is no statutory or imposed debt limitation on the County that may impact planned capital expenditures. At year end the County had not experienced any changes in its credit ratings. The Commissioners' Court has been pro-active in anticipating capital expenditure needs for the current and the near future.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to introduce the reader to the County's basic financial statements. These statements are comprised of three basic components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements. In addition the County has included its Single Audit report in the Compliance Section.

- **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of County finances in a manner similar to a private-sector business. They include a Statement of Net Assets and a Statement of Activities. Both of these statements are presented using the accrual method of accounting; therefore, revenues and expenses are taken into account regardless of when cash is received or when liabilities are paid.

The statement of net assets presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets will serve the reader as a useful indicator of whether the financial position of the County is improving or deteriorating. There are other non-financial factors, such as changes in the County's property tax base and the condition of the County's roads, which should be considered to assess the overall health of the County.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Due to a full accrual presentation, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, judicial, public safety, education and recreation, public works, health and public welfare, and flood control. The business-type activities of the County include arena venue activities associated with the SBC Center, which is the home court of the San Antonio Spurs and the Stock Show and Rodeo.

Component units are included in the County's basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. Three component units, Bexar County Housing Finance Corporation, Bexar County Health Facilities Development Corporation and Bexar County Industrial Development Corporation, are blended with the County. The University Health System (the System) is reported as a discrete component unit because there is some financial accountability by the System to the County Commissioners' Court. For more detailed information on these component units, refer to Note A of the basic financial statements.

- **Fund Financial Statements**

The fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- **Governmental Funds**

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

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

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Debt Service, and Capital Projects Funds. The County maintains:

- 1 General Fund
- 1 Debt Service Fund, and
- 1 Capital Projects Fund.

Data from the other governmental funds, three blended component units, one asset forfeiture fund, and 23 special revenue funds, are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Special Revenue Funds**

The County maintains various special revenue funds, many of which are statutory and are required to annually submit a budget to the Commissioners' Court for review and adoption. Many of these programs receive financial resources from fees specifically designated by the State's legislature to be used for a specified purpose:

County Clerk Records Management Fund	Courthouse Security Fund
County Records Management Fund	Law Library Fund
District Clerk Records Management Fund	Dispute Resolution Fund
Justice of the Peace Technology Fund	Graffiti Eradication Fund
Domestic Relations Fund	Probate Contributions Fund
Farm to Market Lateral Road Fund	Fire Code Fund
Tax Collector's Vehicle Inventory Tax Fund	Unclaimed Property Fund

The County has been awarded several grants by the State and the Federal government. These grants cover periods as short as six months and as long as three years. All grant programs have formal budgets which are reviewed annually.

Various law enforcement agencies have been awarded forfeited funds either by the State of Texas or the Federal government. These funds are to be used to support the law enforcement activity of the office. While there is no requirement for the federal funds to be budgeted, State law requires all public funds to be appropriated and presented to Commissioners' Court. Therefore, annually the departments appropriate funds on hand that will be used in the following year.

Additionally, the County maintains four funds that are special revenue funds that are not statutory. These funds are funded with public funds and the Commissioners' Court has specified in the annual budget how these funds are to be used:

Parking Facilities Fund	Vehicle Replacement Fund
Technology Services Fund	Flood Control Fund

● **Proprietary Funds**

The County's proprietary funds are maintained in two formats:

- (1) An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the arena venue operations (SBC Center).
- (2) Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its maintenance of County vehicles; administration of the County's self-insurance programs for health, workers compensation, and other liabilities; and the records management facility. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The arena venue fund is considered to be a major fund of the County. The County's three internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

- **Fiduciary Funds**

Fiduciary funds (Trust and Agency) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's only fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

- **Notes to the Basic Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 37 - 70 of this report.

- **Required Supplementary Information**

Required supplementary information is presented concerning the County's General Fund budgetary compliance. The County adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budget and actual figures, has been provided to demonstrate compliance with this budget. Required supplementary information can be found on pages 71 – 82 of this report.

The combining and individual fund statements and schedules referred to earlier provide information for non-major governmental funds, internal service funds and agency funds and are presented immediately following the required supplementary information. Additionally, the County legally adopts budgets for a number of other governmental funds. Budgetary comparison schedules and combining and individual fund statements and schedules can be found on pages 83 - 136 of this report.

The remainder of this page intentionally left blank.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The new reporting model focusing on net assets will serve (over time) as a useful indicator of a government’s financial position. For Bexar County, assets exceeded liabilities by \$411,721,388 at the close of the most recent fiscal year as compared to \$395,374,365 at the close of the last fiscal year. This represents a 4.1% increase. A comparative analysis of the changes is presented below:

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Invested in capital assets, net of related debt	\$ 317,499,768	\$ 296,830,750
Assets Restricted for:		
Debt Service	48,215,564	49,358,706
Grants and Special Revenue	15,236,743	10,433,470
Infrastructure	11,284,451	11,023,274
Unrestricted	<u>19,484,862</u>	<u>27,728,165</u>
Net Assets	<u>\$ 411,721,388</u>	<u>\$ 395,374,365</u>

Investment in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure), less accumulated depreciation, less any related debt used to acquire those assets that is still outstanding, represents 77.1% of the County’s net equity at the end of the fiscal year as compared to 75.1% for the previous fiscal period. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. The County’s net investment in its capital assets is reported net of related debt, but it should be noted that resources needed to repay this debt must be internally provided from other sources. Liquidation of capital assets is not an alternative to providing funds to service debt and other related liabilities.

18.1% of the current fiscal year net assets represents resources that are subject to external restrictions as to the use of the funds. The County has fund equity in various grant programs; however, these funds are to be used to fund continual budgets related to specific federal and state programs. Excess funding is returned at the end of the grant programs. The special revenue funds that the County maintains were created through the establishment of fees by the State Legislature or through federal funding to serve specific purposes. Accordingly the revenues generated may only be used for functionality as directed by legislation.

Unrestricted net assets are available to the County to meet ongoing obligations to citizens and creditors. For the fiscal year ending September 30, 2004, the unrestricted net assets decreased from the level for the prior fiscal year. The primary reason for this decrease was an increase in capital assets, net of related debt.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

The following table provides a comparative overview of the Statement of Net Assets:

**Statement of Net Assets**  
**(Amounts in Thousands)**

	<u>As of September 30, 2004</u>			<u>As of September 30, 2003</u>		
	<u>Primary Government</u>			<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and investments	\$ 72,254	\$ 9,224	\$ 81,478	\$ 95,394	\$ 9,694	\$ 105,088
Receivables	28,523	2,236	30,759	28,191	2,320	30,511
Other current assets	718	6,092	6,810	454	696	1,150
Non-current assets	20,707	26,606	47,313	467	29,553	30,020
Capital assets, net	<u>420,726</u>	<u>175,307</u>	<u>596,033</u>	<u>402,575</u>	<u>182,181</u>	<u>584,756</u>
<b>Total Assets</b>	<u>542,928</u>	<u>219,465</u>	<u>762,393</u>	<u>527,081</u>	<u>224,444</u>	<u>751,525</u>
Accounts payable	22,897	13	27,910	19,126	14	19,140
Other current liabilities	12,455	1,012	13,467	7,286	1,061	8,347
Current portion L/T debt	24,439	4,856	29,295	26,861	4,621	31,482
L/T debt	129,239	136,134	265,373	138,397	143,200	281,597
Other non-current liabilities	<u>18,109</u>	<u>1,518</u>	<u>19,627</u>	<u>14,181</u>	<u>1,404</u>	<u>15,585</u>
<b>Total Liabilities</b>	<u>207,139</u>	<u>143,533</u>	<u>350,672</u>	<u>205,851</u>	<u>150,300</u>	<u>356,151</u>
<b>Net Assets</b>						
Invested in capital assets, net of debt	281,659	35,840	317,499	260,954	35,877	296,831
Restricted net assets	43,870	30,868	74,738	42,242	28,573	70,815
Unrestricted net assets	<u>10,260</u>	<u>9,224</u>	<u>19,484</u>	<u>18,034</u>	<u>9,694</u>	<u>27,728</u>
<b>Total Net Assets</b>	<u>\$ 335,789</u>	<u>\$ 75,932</u>	<u>\$ 411,721</u>	<u>\$ 321,230</u>	<u>\$ 74,144</u>	<u>\$395,374</u>

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

The following table provides an overview of the changes in net assets for the governmental and business type activities:

**Statement of Activities**  
**(In Thousands)**  
**For the Year Ended September 30, 2004**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>REVENUES:</b>			
<b>Program Revenues:</b>			
Charges for services	\$ 79,535	\$ 1,300	\$ 80,835
Operating grants and contributions	57,503	-	57,503
Capital grants and contributions	2,412	-	2,412
<b>General Revenues:</b>			
Ad valorem taxes	192,483	-	192,483
Motor vehicle taxes	-	5,426	5,426
Other taxes	4,937	9,109	14,046
Investment earnings	2,165	1,802	3,967
Miscellaneous	363	-	363
<b>Total Revenues</b>	<u>339,398</u>	<u>17,637</u>	<u>357,035</u>
<b>EXPENSES</b>			
General Government	53,249	-	53,249
Judicial	56,763	-	56,763
Public Safety	132,295	-	132,295
Education and Recreation	7,141	-	7,141
Public Works	54,154	-	54,154
Health and Public Welfare	14,660	-	14,660
Interest and fiscal charges	12,445	-	12,445
Unallocated depreciation	115	-	115
Arena Venue	-	15,408	15,408
<b>Total Expenses</b>	<u>330,822</u>	<u>15,408</u>	<u>346,230</u>
Excess before special item and transfers	8,576	2,229	10,805
Special item	589	-	589
Transfers	441	(441)	-
<b>Change In Net Assets</b>	9,606	1,788	11,394
<b>Net Assets – Beginning</b>	<u>326,183</u>	<u>74,144</u>	<u>400,327</u>
<b>Net Assets – Ending</b>	<u>\$ 335,789</u>	<u>\$ 75,932</u>	<u>\$ 411,721</u>

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

Comparative information is provided in the following table which sets out the changes in net assets for the prior fiscal period:

**Statement of Activities**  
**(In Thousands)**  
**For the Year Ended September 30, 2003**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>REVENUES:</b>			
<b>Program Revenues:</b>			
Charges for services	\$ 68,870	\$ -	\$ 68,870
Operating grants and contributions	50,759	10,316	61,075
<b>General Revenues:</b>			
Ad valorem taxes	173,100	-	173,100
Motor vehicle taxes	-	5,374	5,374
Other taxes	4,524	8,819	13,343
Investment earnings	4,211	2,138	6,349
Miscellaneous	938	1,300	2,238
<b>Total Revenues</b>	<b>302,402</b>	<b>27,947</b>	<b>330,349</b>
<b>Functions:</b>			
General Government	42,600	-	42,600
Judicial	54,861	-	54,861
Public Safety	125,956	-	125,956
Education and Recreation	7,210	-	7,210
Public Works	32,725	-	32,725
Health and Public Welfare	15,413	-	15,413
Interest and fiscal charges	10,862	-	10,862
Unallocated depreciation	115	-	115
Arena Venue	-	15,370	15,370
<b>Total Function Cost</b>	<b>289,742</b>	<b>15,370</b>	<b>305,112</b>
Excess before special item and transfers	12,660	12,577	25,237
Transfers	361	(361)	-
<b>Change In Net Assets</b>	<b>13,201</b>	<b>12,216</b>	<b>25,237</b>
<b>Net Assets – Beginning</b>	<b>308,209</b>	<b>61,928</b>	<b>370,137</b>
<b>Net Assets – Ending</b>	<b>\$ 321,230</b>	<b>\$ 74,144</b>	<b>\$ 395,374</b>

**Bexar County, Texas  
Management Discussion & Analysis – For Year Ended September 30, 2004**

• **Revenue Analysis:**

For the year ended September 30, 2004, revenues for the primary government totaled \$357,624,206, compared to \$330,348,747 for the year ending September 30, 2003. Governmental activities provided \$340,428,027 of revenues and the business-type activity provide \$17,196,179 of revenues in 2004 and \$302,762,386 and \$27,586,361 respectively in 2003.

Property taxes represented the largest revenue source for the governmental activities for the two periods. The tax rate for both periods remained constant at \$0.333671 per hundred (\$100) dollars of valuation.

	<u>Year Ended September 30, 2004</u>	<u>Year Ended September 30, 2003</u>
Ad Valorem Tax Revenue	\$ 192,482,396	\$ 173,099,847
Percentage of Total Revenue	53.82%	52.40%
Appraised Value	\$ 66,475,718,533	\$ 63,131,377,385
Percent Increase Over Prior Year	5.30%	9.47%
Taxable Value	\$ 59,225,974,483	\$ 54,723,274,639
Percent Increase Over Prior Year	8.23%	6.42%

Program revenues are principally derived from the program that the revenues service and thereby reduce the cost of the function to the County - for the fiscal year ended September 30, 2004 and 2003 program revenues for the County were \$140,751,067 and \$129,945,534, respectively. Program revenue is made up of charges for service and operating grants and contributions. A comparative overview of these revenues is:

	<u>Year Ended September 30, 2004</u>	<u>Year Ended September 30, 2003</u>
Charges For Service	\$ 80,835,261	\$ 68,869,798
Percentage of Total Revenues	22.60%	20.23%
Grants and Contributions	\$ 59,915,806	\$ 61,075,736
Percentage of Total Revenues	16.75%	18.49%

General revenues are revenues that are not assigned to support a specific function, but are available to provide financial resources as necessary. Included in general revenues are ad valorem taxes (discussed above), other tax related revenues, interest earned from investments, gain on the disposal of assets, and miscellaneous income.

**Bexar County, Texas**

**Management Discussion & Analysis – For Year Ended September 30, 2004**

- **Expense Analysis**

For the year ended September 30, 2004, the function and program costs for the primary government were \$330,821,883 and \$15,407,801 for the business type activity. Comparative figures for the prior fiscal year are \$289,740,968 and \$15,370,342, respectively.

A comparative overview of expenses for the County’s governmental activities for the current and the previous year are as follows:

<u>Function</u>	<u>Year Ended September 30, 2004</u>		<u>Year Ended September 30, 2003</u>	
Public Safety	\$ 132,294,841	(40.0%)	\$ 125,955,756	(43.5%)
Judicial	56,763,280	(17.1%)	54,861,306	(18.9%)
General Government	53,248,573	(16.1%)	42,600,034	(14.7%)
Public Works	54,154,408	(16.4%)	32,725,033	(11.3%)
Health and Public Welfare	14,659,766	(4.4%)	15,413,397	(5.3%)
Interest and Other Fees	12,445,420	(3.7%)	10,860,940	(3.7%)
Education and Recreation	7,140,884	(2.2%)	7,209,791	(2.5%)
Unallocated Depreciation	114,711	(0.1%)	114,711	(0.1%)
<b>Total Governmental Activities</b>	<b>\$ 330,821,883</b>	<b>(100.0%)</b>	<b>\$ 289,740,968</b>	<b>(100.0%)</b>

**FINANCIAL ANALYSIS OF FUNDS**

**Governmental Funds**

The County’s major general governmental functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At September 30, 2004, the County’s governmental funds reported combined fund balances of \$72,593,088, and at September 30, 2003 the County reported \$95,605,840 (as re-stated), a decrease of \$23,012,752 (24.1%). The decrease was mainly attributed to \$18 million in actual expenditures in excess of realized revenues in the Capital Projects, \$3.4 million of debt retirement in excess of realized revenues, and \$2.1 million in actual expenditures in excess of realized revenues in the other governmental funds. These occurrences were anticipated by the Commissioners’ Court and available fund balance was resourced during the budget hearings. Approximately 58.7% of the combined fund balances for the governmental funds constitutes unreserved fund balance, which is available to meet the County’s current and future needs. The remainder of fund balance is reserved and/or designated to indicate that it is not available for new spending because it has been committed for encumbrances, debt service, long-term receivable, capital expenditures and special revenue funds.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

- **The General Fund**

The General Fund is the chief operating fund of the County. At September 30, 2004, the General Fund reported revenues of \$222.6 million, an increase of \$27.5 million over the previous year (14.07%). The increase is primarily due to a \$18.5 million (10.7%) increase in ad valorem taxes, \$1.6 million increase in intergovernmental revenues, a \$1.3 million decrease in fines and court costs, and \$7.6 million increase in revenue from the use of assets. The additional \$7.6 million from the rental of County property was the result of an accounting change. Previously the County had only budgeted and reported the rental proceeds as a net figure. The County collected \$7.9 million in facility rentals from the U. S. Immigration and Naturalization Department and the U.S. Marshall’s Service for the housing of inmates and in turn paid the GEO Group \$6 million to manage the facility and the contract for the County.

Expenditures in the General Fund during the fiscal year were \$220.4 million, an increase of \$14.5 million (7.04%) over the previous fiscal year. Upon examination, the majority of the increase was due to personnel expenditures (salary and related benefits) and related reclassifications within the County’s position control, and increased utility expenses:

<u>Function</u>	<u>Expenditure Increase</u>
General Government	\$7,870,384
Judicial	\$2,714,652
Public Safety	\$3,823,039

Of the \$7.8 million increase in the General Government, \$6 million is due to the accounting change as noted above.

The fund balance of the County’s General Fund had a net increase (\$525,786) as compared to a decrease of \$7.5 million in the prior year.

Actual realized revenues exceeded budgeted revenues by \$12.3 million, a variance of 5.85 percent. The more significant variances occurred as follows:

<u>Resource</u>	<u>Increase</u>	<u>Percent Increase</u>
Ad Valorem Taxes	\$18,575,206	13.13%
Intergovernmental	1,933,292	52.30%
Revenue From Use of Assets	6,118,489	117.55%

- Ad valorem taxes increased due to the appraised values increasing \$3.6 billion (6.6%).
- Intergovernmental revenues increased due to the receipt of funding during the year from both the federal government and the state which was not anticipated.
- Revenue from the lease of County facilities provided an additional \$5 million in revenue which was not anticipated during the budget process.

The ending budget for the General Fund reflected an anticipated excess of expenditures over anticipated revenues of \$16 million and Commissioners’ Court appropriated available fund balance to provide resources to fund the excess expenditures. However, actual expenditures were \$525,786 less than actual revenues.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

**The Debt Service Fund**

The Debt Service Fund accounts for receipts and disbursements of funds related to the County's long-term bonded debt obligations. The fund balance at the end of 2004 was \$17,347,953 as compared to the fund balance at the end of 2003, \$20,785,200. At the end of FY 2004, the fund balance decreased \$3.4 million (16.5%). During the year ended September 30, 2004, the County retired principal on its outstanding debt of \$18,990,463 and sold advanced refunding bonds to permanently defease \$14,425,000 of outstanding debt. The \$14,090,000 of refunding bonds that the County sold provided the County with an economic gain. The County's gross debt service over a 10 year period was reduced \$807,268, providing on a present value basis a net savings of \$744,595.

Additionally, the County sold \$14,500,000 of certificates of obligations during the fiscal year to provide financing for public works projects and the renovation of County buildings. In October 2004 the County sold \$9,400,000 of the available Limited Tax Bonds and \$6,080,000 of the available Unlimited Tax Bonds. At the same time \$23,960,000 of certificates of obligations were sold to provide financing for public works projects, and \$3,595,000 of certificates of obligations were sold to provide financing for flood control projects.

For fiscal year 2005 the County's general government debt service requirements are \$30.8 million - \$16.9 principle; \$13.9 interest.

Additional information is available to the reader in Note G (Long Term Debt) in the Notes to the Financial Statements.

- **The Capital Project Fund**

The Capital Project Fund is used to account for receipts and disbursements relating to the acquisition or construction of major capital projects. At the end of FY 2003, the fund balance was \$28,734,137 and at the end of 2004 the fund balance was \$10,718,573. The decrease in fund balance (\$18,015,564) represents the completion of several major capital improvement and acquisition programs during the year. A large portion of the financing during the year was provided by reimbursement resolutions issued by the Commissioners' Court. The funding to retire the resolutions and to repay the operating funds that provided the loans was obtained when certificates of obligation were sold in October 2004 (see debt service note above).

More detailed information concerning capital improvement activity can be evaluated by examining Note A of the Notes to the Financial Statements, item #10 and Note E – Capital Assets.

- **Proprietary Fund – Arena Venue Enterprise Fund**

The County's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail. The Arena Venue Fund is the County's only major proprietary fund at September 30, 2004. This fund provides the accounting structure for the construction, financing, and leasing of the SBC arena. The arena opened in October 2002, and is the home for the San Antonio Spurs and the Stock Show and Rodeo. As of September 30, 2004, \$75,932,461 of net assets is made up of \$35,840,402 invested in capital assets, net of related debt, \$30,867,611 restricted net assets, and \$9,224,448 of unrestricted net assets.

Revenues from hotel occupancy and motor vehicle taxes contributed \$14.5 million in revenues in the current fiscal year. The net assets were further augmented by \$1.3 million in license fees from the San Antonio Spurs and investment revenue of \$1.8 million.

Operating Expenses for the Venue Fund were \$175,000 and \$7 million in depreciation and amortization. Additionally there was \$8 million in interest expense. The change in net assets was \$1.8 million.

- **Internal Service Funds**

The Internal Service Funds are used to support activities of the General Fund. For the year ended September 30, 2004, the funds reflected an increase in "total net assets" of \$4.9 million as compared to the prior fiscal year when the County experienced a decrease in "total net assets" of \$1.9 million for the fiscal year ended September 30, 2003. The "total net assets" for the fund at the end of the current fiscal period was \$1.1 million. Revenues were provided through \$26.2 million in premiums, charges for service, sales and other income. Operating expenses for the current fiscal year were \$24.9 million. The largest expenditure area was claims paid through self insurance funds of \$20 million. In addition the fund received a \$3.6 million transfer during the year from the General Fund to assist in covering the short fall from the prior fiscal year.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

- **Capital Assets**

The capital assets of the County are those assets (land, right-of-way, buildings, improvements, roads, bridges, machinery, and equipment) which are used by the County in performance of the County's functions. At September 30, 2004, net capital assets of the governmental activities of the County was \$420,725,504 and at September 30, 2003 it was \$402,574,533. Depreciation on capital assets is recognized in the government-wide financial statements. Depreciation provided for the current fiscal period was \$25,067,419 as compared to \$23,177,125 for the year ended September 30, 2003. At September 30, 2004 the County's governmental activities had \$41,792,577 invested in ongoing construction in progress compared to \$27,307,012 at the end of the prior fiscal year.

The investment in capital assets in the business-type activity at September 30, 2004 and September 30, 2003 was \$188,452,905. The depreciation provided for the current fiscal year was \$6,874,708 as compared to \$6,271,684 for the year ended September 30, 2003.

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2004**

**CAPITAL ASSETS**

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
<b>Governmental Activities:</b>			
Land	\$ 22,923,297	\$ -	\$ 22,923,297
Buildings	227,279,069	76,870,832	150,408,237
Machinery, equipment	56,900,561	21,025,329	35,875,232
Infrastructure	307,573,824	137,847,663	169,726,161
Construction in progress	<u>41,792,577</u>	<u>-</u>	<u>41,792,577</u>
<b>Totals</b>	<u>656,469,328</u>	<u>235,743,824</u>	<u>\$ 420,725,504</u>
<b>Business-Type Activities:</b>			
Buildings	176,278,539	8,479,522	167,799,017
Equipment	<u>12,174,366</u>	<u>4,666,840</u>	<u>7,507,526</u>
<b>Totals</b>	<u>188,452,905</u>	<u>13,146,392</u>	<u>175,306,513</u>
<b>Totals Government-wide</b>	<u>\$ 844,922,233</u>	<u>\$ 248,890,216</u>	<u>\$ 596,032,017</u>

At September 30, 2004, \$7.1 remained available from the proceeds of bonds and Certificates of Obligation to be used for the support of various capital projects, as compared to \$18.1 million at the end of September 30, 2003.

• **Long-Term Debt**

At September 30, 2004, the County had total long-term debt outstanding of \$275,112,155 as compared to \$294,039,712 in the prior year. In October 2004 the County sold \$9,400,000 of the available Limited Tax Bonds and \$6,080,000 of the available Unlimited Tax Bonds. At the same time, \$23,960,000 of Certificates of Obligation were sold to provide financing for public works projects, and \$3,595,000 of Certificates of Obligation were sold to provide financing for flood control projects. The annual requirements related to the new issues were anticipated during the County's budget process for fiscal year 2005.

A comparative overview of the debt requirements for the fiscal year 2005 to fiscal year 2004 are as follows:

	<u>September 30, 2005</u>	<u>September 30, 2004</u>
<b>Governmental Activities:</b>		
Refunding Bonds	\$ 8,386,918	\$ 9,717,593
General Obligation Bonds	1,733,061	17,212,407
Certificates of Obligations	3,765,225	3,790,463
Tax Note	2,805,000	2,695,000
Notes payable	<u>213,880</u>	<u>7,457,094</u>
<b>Total Requirements</b>	<u>\$ 16,904,084</u>	<u>\$ 40,872,557</u>
<b>Business-type Activities:</b>		
Revenue bonds	<u>\$ 4,670,000</u>	<u>\$ 6,645,000</u>

**Bexar County, Texas**

**Management Discussion & Analysis – For Year Ended September 30, 2004**

Refer to Note G for a detailed breakdown of long-term debt owed by the County. County officials, citizens and investors will find the ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita as useful indicators of the County's debt position and is shown in the statistical section of this report.

The County is currently in compliance with all required bond covenants.

**ECONOMIC FACTORS**

The Commissioners' Court adopted the County's budget for the fiscal year 2004 – 2005 on September 14, 2004. The budget was adopted based on anticipated resources and estimated uses in fiscal year 2005. The total available resources for all funds are anticipated to be \$529,298,000. For the County's General Fund total resources are estimated to be \$232,726,145. In addition the Commissioners' Court appropriated the available fund balance of \$21,859,502 at September 30, 2004.

For the fiscal year ending September 30, 2005, the Commissioners' Court reduced the tax rate from \$0.333671 per hundred dollars of taxable valuation to \$0.33119. However, it is anticipated that tax revenues for the general fund will be 5% (\$9,000,000) above what was actually collected for fiscal year 2004. This is due to an increase in valuation of \$3.6 billion and the fact that the County has shown that it is effectively collecting a higher percentage of its annual tax levy. For many years the County has used an estimated 96% collection rate to estimate current period revenue, and for the fiscal year 2005 the County has increased the anticipated collection level to 97.5%. All other revenue streams for the County should remain fairly constant with those that the County has enjoyed for the prior two years.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 212 Stumberg – Suite 100, San Antonio, Texas 78204.