

March 31, 2005

Honorable District Judges of Bexar County and
Honorable Members of the Bexar County Commissioners' Court

The County Auditor's Office is pleased to present the Comprehensive Annual Financial Report ("CAFR") of Bexar County, Texas for the fiscal year ended September 30, 2004. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included. This report was prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board and is in compliance with V.T.C.A., Local Government Code §114.025.

Bexar County currently is reporting financial information using the "new financial reporting model" promulgated by the Government Accounting Standards Board Statement Number 34, *Basic Financial Statements—And Management's Discussion and Analysis—For State and Local Governments* (GASBS No. 34 as amended by GASBS No. 37). The CAFR was prepared in accordance with these statements and is presented in the following four sections:

- The **Introductory Section**, which includes this transmittal letter, a list of principal officials and the County's organizational chart.
- The **Financial Section**, which includes: the independent auditors' report, Management's Discussion and Analysis ("MD&A"), the basic financial statements (including notes), required supplementary information (other than MD&A) and the combining financial statements.
- The **Statistical Section**, which includes selected financial and demographic information which is generally presented on a multi-year basis, and other information which includes supplemental disclosures to comply with the Securities Exchange Commission Rule 15c2-12.

Bexar County, Texas

Transmittal Letter – For Year Ending September 30, 2004

- The **Compliance Section** contains information related to the County's annual single audit, which is required under the provisions of the Single Audit Act of 1984 as amended by the Act of 1996. The Act comes under the oversight of the Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*. Information related to this single audit is included; Independent Auditor's Report on Compliance and Internal Controls over financial reporting, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program; Schedule of Findings and Questioned Costs; Supplemental Schedule of Federal and State Awards; and Notes to Schedule of Expenditures of Federal and State Awards.

Pursuant to Governmental Accounting Standards Board Statement No. 14 as amended by GASBS No. 39, the reporting entity consists of:

- The primary government, Bexar County;
- Component units which are legally separate organizations for which the County is financially accountable (blended); and
- Component units which the nature and significance of the relationship with the County is such that exclusion from the County's financial statements would be misleading or incomplete (discretely presented).

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. One component unit, the University Health System, is reported as a discretely presented component unit. For more information on these component units, refer to Note A of the Basic Financial Statements.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative overview and analysis to accompany the financial statements in the form of a MD&A. This letter of transmittal should be read in conjunction with the MD&A which can be found immediately following the report of the independent auditors in the Financial Section of this report.

BACKGROUND, ECONOMIC CONDITIONS, AND GROWTH

The County is located in south central Texas where the coastal plains meet the Texas Hill Country. Organized in 1836 as one of the original counties of the Republic of Texas, Bexar County has an estimated population of 1,560,500 in 2004 which makes it the fourth largest County in the State. The County covers an area of 1,248 square miles and contains 25 incorporated cities, including San Antonio, with a 2004 estimated population of 1,282,400 reflecting a 21.8% growth since 1994. Bexar County is fortunate to have recovered from the recession of the early nineties. The unemployment rate has dropped from 7% in 1990 to less than 5% by 2004. The County's diverse

Bexar County, Texas

Transmittal Letter – For Year Ending September 30, 2004

economic base ranges from agribusiness, manufacturing and construction to tourism, medicine and the military. For metropolitan areas with one million plus populations, San Antonio is ranked among the lowest in cost of living at 13.3% below the national average. The County continues to provide new industries with one of the lowest cost workforces of any major U.S. city. Combined, the biomedical, aerospace and information technology industries generate an economic impact of nearly \$14 billion on the local economy. The key components of the health care industry are three major military medical centers, the South Texas Medical Center (which includes five University of Texas health professional schools, ten major hospitals and 80 health related facilities), the Southwest Foundation for Biomedical Research, and the Southwest Research Institute. Agribusiness is still a leading industry in Bexar County. The agricultural industry is not limited to farmers and ranchers, but includes storage, processing and distribution of farm commodities and products made from them. Government is the third largest industry in the County with the military being the predominate employer. The four major military installations contributed an economic impact which exceeds \$4.9 billion. The latest research indicates that tourism provides an estimated \$4 billion to the economy from approximately 8 million overnight visitors annually. Not only is San Antonio the number one tourist destination in Texas, it is among the top ten in the world.

The County's proximity to Mexico provides favorable conditions for international business relations in the areas of agriculture, tourism, manufacturing, wholesale and retail markets. Fifty percent of U.S. exports to Mexico and fifty percent of Mexican exports to the U.S. pass through San Antonio. Trade between the United States and Mexico was projected at \$124 billion in 2001 - an increase of \$70 billion since 1995 (129%). The increase in trade is largely attributed to the passage of the North American Free Trade Agreement (NAFTA) in 1993. San Antonio is also the headquarters for the North American Development Bank (NADBank). This bi-national institution created by NAFTA is intended to help finance environmental infrastructure within 60 miles of the US/Mexican border. With a lending capacity of \$2 billion, NADBank finances projects including water, wastewater and solid waste programs. To assist the transition and to facilitate the development of the NAFTA agreement, the Mexican consulate was expanded in San Antonio.

FINANCIAL POLICIES AND LONG-TERM FINANCIAL PLANNING

The County has continued to enjoy a favorable financial environment during the fiscal year ended September 30, 2004. The population growth in the incorporated, as well as the unincorporated areas, is considered by the Commissioners' Court annually in appropriating funds to support the delivery of services. The County has developed working arrangements with the majority of the incorporated cities within the County to allow the Court to anticipate needs and to establish a cost-effective manner to apply available resources.

The County is responsible for establishing the tax rates for the County (operations and debt service) as well as to service the flood control projects in the County (operations and debt service). In addition, the County includes in its debt service tax rate the debt service requirements for the San Antonio River Authority for projects in Bexar County. The tax rates for fiscal years 2004 and 2005 were \$0.333671 and \$0.331190, respectively.

Bexar County, Texas
Transmittal Letter – For Year Ending September 30, 2004

Current long-term financial policies of the County are:

- Expenditures by function are controlled to not exceed available resources;
- Use technological solutions to improve operations;
- Provide an equitable justice system that is responsive to the needs of the County;
- Delivery of service to the constituents;
- Encourage flexibility and accountability in all offices and departments;
- Promote diversity in the workforce;
- Maintain full disclosure and open lines of communications with the rating agencies; and
- To develop a highly efficient and effective cash management program to maximize the County's ability to earn an equitable return on its assets, while at the same time maintain asset protection.

The County's Strategic Management Team (SMT) identified the major components of the long-term issues as strategic plan priorities. Those strategic priorities include (in no specific order) adult detention facilities, Bexar County as an employer, budget accountability and flexibility, Bexar County infrastructure and asset management, County-wide strategic management, demand for County services, financial management, juvenile justice, population management, State and Federal mandates, and technology. Completion of the on-going County-wide strategic plan is viewed as a number one priority to address these issues. The County-wide Strategic Plan will help to define the issues and allow the Commissioners' Court the ability to develop a unified approach in addressing them.

MAJOR INITIATIVES FOR THE YEAR

Infrastructure Development - In November 2003, the voters approved \$99,246,000 in general obligation bonds. The bonds were put before the voters as four propositions. All four passed in a general election and use of the funds has been scheduled over the next five years.

- **Proposition 1** – Includes 6 major projects - building a new adult probation facility (\$16,775,000); improving and expanding the current juvenile facilities for administration and detention (\$23,486,899); the construction of a residential children's shelter (\$878,101); the acquisition of an automated fingerprint identification system (\$3,500,000); the completion of the overhaul of the jail lock project (\$2,700,000), and the enhancement of the public safety radio system (\$650,000) – for a total of \$47,990,000.
- **Proposition 2** – Includes the upgrade of 12 County roads for a total cost of \$40,581,000.
- **Proposition 3** – Includes improvements to nine County parks (\$2,675,000) and additions to five County community centers (\$3,250,000) – for a total of \$5,925,000.

Bexar County, Texas

Transmittal Letter – For Year Ending September 30, 2004

- **Proposition 4** – Is composed of two projects – a senior citizen multi-purpose facility (\$750,000) and an emergency operations center (\$4,000,000) for a total of \$4,750,000.

During the year ended September 30, 2004, the Commissioners' Court approved the use of \$15,480,000 of the bonds for various projects that were approved. The bonds were sold in October 2004.

Commercial Expansion – In 2003, the County was notified that the Toyota Corporation had selected Bexar County as the site for its next plant expansion in the United States. In 2003 negotiations were completed and adequate land was secured in the southeastern portion of the County. In February 2004 construction began on the \$60 million plant. Simultaneously the County and the State began the development of the infrastructure to support the Toyota expansion. The entire cost for the development of ingress and egress to the property in the southern part of the County is estimated to cost \$26,600,000. The State of Texas (Texas Department of Transportation) is to provide \$9,100,000, and the State granted the County an Infrastructure Bank Loan for \$2,700,000. The City of San Antonio is to provide \$1,500,000 in financial assistance, and the County is responsible for the additional funding (\$13,300,000). The County resourced \$10,600,000 of its requirement through the sale of certificates of obligations in October 2004, and the final \$2,700,000 will be resourced from available fund balance in the County's Road and Bridge Fund. The plant is scheduled for completion in 2005 and will provide 2,000 jobs. Additionally, 10 major Toyota suppliers have announced locating support centers near the plant site. This will provide an additional 1,000 jobs.

Medium Risk Adult Detention Center – The County received notice in 2002 that the Medium Risk Facility was ready for occupancy. The expansion project undertaken by the County resulted in an additional \$26.3 million investment. The facility became fully operational during the current fiscal year providing the County with additional bed space that should serve the County's needs through 2007. The expansion allows the facility to grow as needs require from 624 beds to 832 beds.

Courthouse Restoration and Renovation - The Bexar County Courthouse is listed in the National Register of Historic Places and was constructed in 1896. In 1998, a professional survey of the exterior masonry was conducted to identify problems and recommend possible corrective action or repairs. Several large pieces of stone had begun to fall from the Courthouse and this survey was the first step in identifying the extent of the damage and deterioration to the exterior stone. After further review, the project scope was modified to include both the survey of the needs of the outside construction and the need for internal building improvements. In 2000, Bexar County was awarded approximately \$2.8 million from the Texas Historic Commission to initiate the Courthouse restoration. Authorized projects such as the Courthouse Stabilization, Fire Alarm System, and the Neglect and Abuse Court Expansion project are all associated with the Courthouse restoration; therefore, these projects were consolidated. In 2002 the Strategic Budget Summit group identified the stabilization of the Bexar County Courthouse as an urgent priority. The final stage of the current restoration project began during 2004. The Bexar County Courthouse has stood for 106 years, and the current project will preserve the courthouse's significance as a major historical Texas landmark as well as accommodate the safety and technology needs of a modern workforce. The current project budget is \$11.9 million. The County has received \$2,700,000 from the Hidalgo Foundation for interior and exterior renovations. The remaining \$6,300,000 will be funded from available County

Bexar County, Texas
Transmittal Letter – For Year Ending September 30, 2004

reserves.

The County had the additions made in 1963 and 1972 to the courthouse evaluated, and a restoration proposal was received to remove the granite used as outside facing and replace it with red sandstone to match the existing facing on the original courthouse. The anticipated cost for the renovation is \$3 million.

Radio System - An inter-local agreement between Bexar County and the City of San Antonio for the purchase of a new radio system was completed in 2004. The system is designed to allow for constant communications between the Bexar County Sheriff's Office, the San Antonio Police Department and other City and County departments. The entire system is estimated to cost \$43.3 million. The County's share of the cost will not be greater than \$7.7 million. To date the County has provided \$2.6 million of its requirement. In addition, the County has purchased radio equipment to replace its current equipment (\$650,000) and has begun the modification of its communication center. When completed and fully tested, the new system will replace the current radio system and allow for complete coverage throughout the County. Implementation was started in 2004 and is anticipated to be fully operational in early 2006.

FINANCIAL INFORMATION

Budgetary Control

Budgets are adopted for the General, Special Revenue and Debt Service Funds on a basis wherein expenditures include encumbrances outstanding at the end of the fiscal year. Although this basis departs from generally accepted accounting principles, it provides meaningful feedback and control to management.

In the General and Special Revenue Funds, in which the revenue is determined by the County, budgetary control is maintained by the County Auditor's Office at the expenditure category (appropriation unit) level by a review of estimated purchase amounts prior to the release of purchase orders to vendors. A purchase order, which would result in an overrun of an appropriation unit, is not released until additional appropriations are made available.

Under State law, the budget cannot be exceeded in any expenditure category. Grants from the Criminal Justice Division (CJD) may overrun a category allowance by 5%, but the total of the grant may not overrun. In Community Development Block Grant Funds (CDBG), the budget cannot be exceeded in any one project. In the Grants-In-Aid Fund, budget totals are changed during the year as funds are increased and/or decreased due to changes in availability of funds from the State or Federal sources.

Debt Administration

Tax rates levied for limited tax bonds, certificates of obligation and tax notes are part of the maximum rate of \$.80 per \$100 valuation that can be set by Texas counties. In FY 2004 the General Fund maintenance and operation tax rate was set at \$0.279634, and the debt service rate was set at \$.041318. The maintenance and operation tax rate set for flood control was set at \$0.001403 and at \$0.011316 for debt service. The overall rate was set at \$0.333671 per \$100 dollars of taxable appraised value for the year, which was unchanged from the rate set the year before. The County has maintained ratings of Aa2 from Moody's Investors Service, AA from Standard and Poor's

Bexar County, Texas
Transmittal Letter – For Year Ending September 30, 2004

Corporation, AA+ from Fitch IBCA.

An analysis of the changes in outstanding bonds and obligations is shown in Note G to the financial statements.

OTHER INFORMATION


Independent Audit - V.T.C.A., Local Government Code, §115.045 requires an annual audit by independent certified public accountants. For this purpose, the firm of Garza/Gonzalez & Associates was selected by Commissioners' Court. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984 and the related U.S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting Office's *Government Auditing Standards* were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditors' reports on internal controls and compliance with applicable laws and regulations can be found in the Compliance Section of this report.

Awards - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Bexar County for its comprehensive annual financial report for the fiscal year ended September 30, 2003. This was the eighteenth consecutive year that Bexar County has achieved this prestigious recognition. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We wish to express our thanks to Commissioners' Court and the District Judges for their interest and support in planning and conducting the financial affairs of the County in a responsible and professional manner. The Court and other elected officials and department heads need to be recognized for their continual support that has been provided as the County continues to refine and implement financial changes that will allow the County to collect financial data in a format that will permit the implementation of more timely and useful reporting as well as develop the new reporting model. The timely completion of this report could not have been achieved without the dedicated efforts of the County Auditor's staff, and the professional services provided by our independent auditors, Garza/Gonzalez and Associates.


Tommy J. Tompkins, C.P.A.
County Auditor

Bexar County, Texas



PRINCIPAL OFFICIALS

COUNTY JUDGE	NELSON W. WOLFF
COMMISSIONER, PRECINCT 1	ROBERT TEJEDA
COMMISSIONER, PRECINCT 2	PAUL ELIZONDO
COMMISSIONER, PRECINCT 3	LYLE LARSON
COMMISSIONER, PRECINCT 4	TOMMY ADKISSON
COUNTY AUDITOR	TOMMY J. TOMPKINS
ASSESSOR-COLLECTOR OF TAXES	SYLVIA ROMO
COUNTY CLERK	GERRY C. RICKHOFF
DISTRICT ATTORNEY	SUSAN D. REED
DISTRICT CLERK	MARGARET G. MONTEMAYOR
SHERIFF	RALPH LOPEZ

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Bexar County,
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



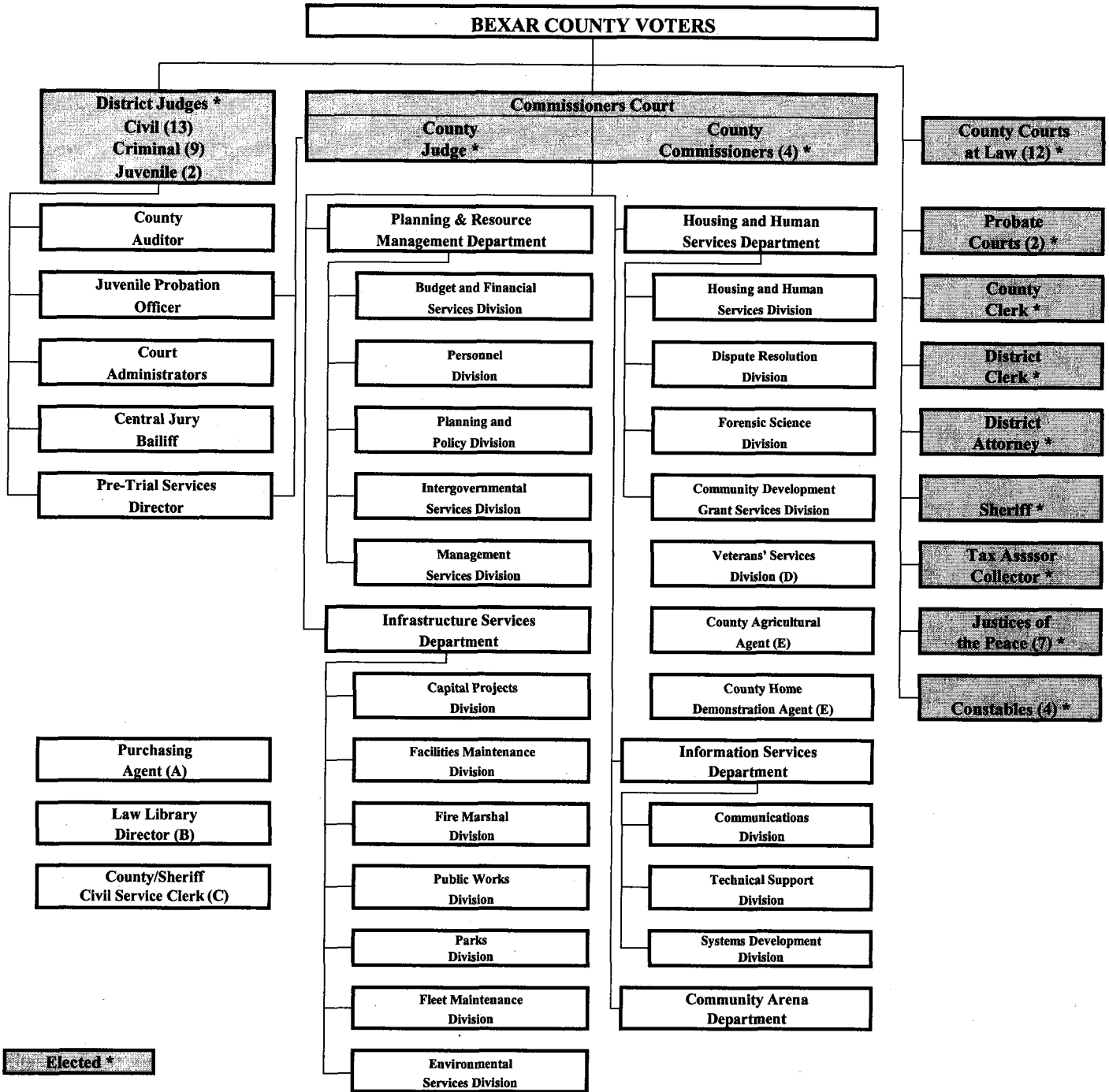
Nancy L. Zjella

President

Jeffrey R. Enow

Executive Director

BEXAR COUNTY ORGANIZATIONAL CHART



Elected *

- NOTES:**
- (A) The Purchasing Agent is appointed by a Board composed of three District Judges and two members of Commissioners Court.
 - (B) The Law Library Director is appointed by the San Antonio Bar Association with the approval of Commissioners Court.
 - (C) The Chief County/Sheriff's Civil Service Commission Clerk is appointed by the three County and three Sheriff's Civil Service Commissioners.
 - (D) The Veteran's County Service Officer is appointed by the Commissioners Court and certified by the State Veterans' Commissioner.
 - (E) The County Agricultural Agent and Home Demonstration Agent are appointed by the Texas A&M Extension Service.