

**Bexar County, Texas**  
**Management Discussion & Analysis – For Year Ended September 30, 2005**

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, 2005. 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, 2005 by \$437,893,716, and are reported as total net assets of the primary government. This is comparable to the previous year when assets exceeded liabilities by \$412,022,677. The total net assets is comprised of unrestricted net assets (funds that may be used to meet ongoing obligations to citizens and creditors), restricted net assets (funds to be used for a specified purpose), and amounts invested in capital assets, net of related debt.
- The government-wide total net assets increased \$26,172,328, including the restatement for the non-major governmental funds, during the fiscal year ending September 30, 2005. The increase was due to governmental activities (\$21,532,475) and to business-type activities (\$4,639,853) 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, 2005	\$316,021,629
September 30, 2004	\$317,499,768
  - 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, 2005	\$81,424,274
September 30, 2004	\$74,736,758
  - 3) Unrestricted net assets represent the portion available to meet current requirements and obligations to the County’s creditors and citizens:

September 30, 2005	\$40,377,813
September 30, 2004	\$19,484,862

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**Fund Financial Statements:**

- As of September 30, 2005, the County's governmental funds reported combined fund balances of \$114,320,917. This compares to the prior year combined fund balances of \$72,894,375 (as restated). Approximately 38.06% of the combined fund balances at September 30, 2005 (\$43,509,222) 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 \$22,244,132 at September 30, 2005 and \$22,342,610 at September 30, 2004 (as restated). The fund balances for the non-major governmental funds were reported in the previous Comprehensive Annual Financial Report as \$22,041,323. At September 30, 2005 \$14,144,767 is unreserved as compared to \$20,581,860 at September 30, 2004 (as re-stated).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$29,364,455, or 12.63% of total general fund expenditures for the year ended September 30, 2005.

**Long-Term Debt:**

- Bexar County's total long-term debt (Bonds, Certificates of Obligation and Notes Payable) increased \$17,165,916 (12.49%) of existing debt at the beginning of the fiscal year.

Governmental Activities	\$26,130,916	16.68%
Business-type Activities	\$(8,965,000)	(6.51) %

The County made total principal payments on outstanding debt related to Governmental Activities of \$16,903,964 and \$8,965,000 related to Business-type Activities. The County did issue \$15,480,000 of general obligation bonds during the fiscal year and \$27,555,000 in certificates of obligations. The general obligations bonds provided funding for the development and construction of County roads and buildings. The certificates of obligations provided funding for construction, flood control 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 - \$99,246,000. During the year ending September 30, 2005, \$15,480,000 of these bonds was sold (October 2004) to provide funds to finance current year construction projects. An additional \$31,000,000 is scheduled to be sold during the fiscal year ending September 30, 2006.

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

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financial statements. In addition the County includes 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 AT&T 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

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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**

Governmental 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 balances 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 Project Fund.

Data from the other governmental funds, three blended component units, one grant fund, one asset forfeiture fund, and 22 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	Courthouse Security
County Records Management	Law Library
District Clerk Records Management	Dispute Resolution
Justice of the Peace Technology	Graffiti Eradication
Domestic Relations	Probate Contributions
Farm to Market and Lateral Road	Fire Code
Tax Collector's Special Inventory Tax	Unclaimed Money
Law Enforcement Education	District Attorney Programs
Asset Forfeiture	

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During the year ended September 30, 2005 the County completed the process of eliminating its Stormwater Mitigation Fund. In addition, the Flood Control Fund was reclassified as a Capital Improvement program.

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 Garage	Vehicle Replacement
Technology Improvements	Election Contract Services

- **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 an arena venue operation – the AT&T 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.

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.

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- **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 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 37-73 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 75-86 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 90-141 of this report.

## **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 the primary government assets exceeded liabilities by \$437,893,716 at the close of the most recent fiscal year as compared to \$412,022,677 at the close of the last fiscal year as restated. This represents a 6.28% increase. A comparative analysis of the changes in the primary government is presented below:

	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Invested in capital assets, net of related debt	\$ 316,021,629	\$ 317,499,768
Assets Restricted for:		
Debt Service	55,304,121	48,215,564
Grants and Special Revenue	14,985,944	15,538,032
Capital Projects	11,204,209	11,284,451
Unrestricted	<u>40,377,813</u>	<u>19,484,862</u>
Net Assets	<u>\$ 437,893,716</u>	<u>\$ 412,022,677</u>

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The primary government's 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 72.17% of the County's net assets at the end of the fiscal year as compared to 77.12% 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.

18.51% of the current fiscal year net assets represent resources that are subject to external restrictions as to the use of the funds. The County has net assets in various grant programs; however, these net assets 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 primary government to meet ongoing obligations to citizens and creditors. For the fiscal year ending September 30, 2005, the unrestricted net assets increased \$20,892,951 from the level for the prior fiscal year. The primary reason for this increase government-wide was due to the fact that total assets increased \$40 million while total liabilities only increased \$14 million during the fiscal period of which approximately \$21 million were unrestricted.

Cash & investments	Increased	\$56 million
Receivables	Increased	7 million
Other current assets	Increased	2 million
Non current assets	Decreased	19 million
Capital assets, net	Decreased	5 million
Other current liabilities	Increased	1 million
Current long term debt	Decreased	3 million
Long term debt	Increased	16 million

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

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**Condensed Statement of Net Assets**  
**(Amounts in Thousands)**  
**As of September 30,**

	<u>2005 - Primary Government</u>			<u>2004 - 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	\$ 128,445	\$ 9,047	\$ 137,492	\$ 72,555	\$ 9,224	\$ 81,779
Receivables	34,635	2,668	37,303	28,523	2,236	30,759
Other current assets	856	7,818	8,674	718	6,092	6,810
Non-current assets	1,179	26,911	28,090	20,707	26,606	47,313
Capital assets, net	<u>422,688</u>	<u>168,432</u>	<u>591,120</u>	<u>420,726</u>	<u>175,307</u>	<u>596,033</u>
<b>Total Assets</b>	<u>587,803</u>	<u>214,876</u>	<u>802,679</u>	<u>543,229</u>	<u>219,465</u>	<u>762,694</u>
Accounts payable	23,161	15	23,176	22,897	13	22,910
Other current liabilities	13,870	952	14,822	12,455	1,012	13,467
Current portion L/T debt	21,031	5,080	25,926	24,439	4,856	29,295
L/T debt	154,418	126,759	281,362	129,239	136,134	265,373
Other non-current liabilities	<u>18,001</u>	<u>1,498</u>	<u>19,499</u>	<u>18,109</u>	<u>1,518</u>	<u>19,627</u>
<b>Total Liabilities</b>	<u>230,481</u>	<u>134,304</u>	<u>364,785</u>	<u>207,139</u>	<u>143,533</u>	<u>350,672</u>
<b>Net Assets</b>						
Invested in capital assets, net of debt	277,877	38,145	316,022	281,659	35,840	317,499
Restricted net assets	48,114	33,380	81,494	43,870	30,868	74,738
Unrestricted net assets	<u>31,330</u>	<u>9,047</u>	<u>40,377</u>	<u>10,561</u>	<u>9,224</u>	<u>19,785</u>
<b>Total Net Assets</b>	<u>\$ 357,321</u>	<u>\$ 80,572</u>	<u>\$ 437,893</u>	<u>\$ 336,090</u>	<u>\$ 75,932</u>	<u>\$412,022</u>

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

**Condensed Statement of Activities**  
**(In Thousands)**  
**For the Year Ended September 30, 2005**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>REVENUES:</b>			
<b>Program Revenues:</b>			
Charges for services	\$ 87,022	\$ 1,300	\$ 88,322
Operating grants and contributions	45,290	-	45,290
Capital grants and contributions	497	-	497
<b>General Revenues:</b>			
Ad valorem taxes	201,393	-	201,393
Motor vehicle taxes	-	5,905	5,905
Other taxes	5,411	10,618	16,029
Investment earnings	4,480	2,079	6,559
Miscellaneous	541	-	541
<b>Total Revenues</b>	<u>344,634</u>	<u>19,902</u>	<u>364,536</u>
<b>EXPENSES</b>			
General Government	60,375	-	60,375
Judicial	59,079	-	59,079
Public Safety	138,802	-	138,802
Education and Recreation	8,268	-	8,268
Public Works	32,689	-	32,689
Health and Public Welfare	15,593	-	15,593
Interest and fiscal charges	8,775	-	8,775
Unallocated depreciation	115	-	115
Arena Venue	-	14,969	14,969
<b>Total Expenses</b>	<u>323,696</u>	<u>14,969</u>	<u>338,665</u>
Excess before special item and transfers:	20,938	4,933	25,871
Transfers	293	(293)	-
<b>Change In Net Assets</b>	21,231	4,640	25,871
<b>Net Assets – Beginning</b>	<u>336,090</u>	<u>75,932</u>	<u>412,022</u>
<b>Net Assets – Ending</b>	<u>\$ 357,321</u>	<u>\$ 80,572</u>	<u>\$ 437,893</u>

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

**Condensed 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	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	664	-	664
<b>Total Revenues</b>	<u>339,699</u>	<u>17,637</u>	<u>357,336</u>
<b>Functions:</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 Function Cost</b>	<u>330,822</u>	<u>15,408</u>	<u>346,230</u>
Excess before special item and transfers:	8,877	2,229	11,106
Special item	589	-	589
Transfers	441	(441)	-
<b>Change in Net Assets</b>	9,907	1,788	11,695
<b>Net Assets – Beginning</b>	<u>326,183</u>	<u>74,144</u>	<u>400,327</u>
<b>Net Assets – Ending</b>	<u>\$ 336,090</u>	<u>\$ 75,932</u>	<u>\$ 412,022</u>

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- **Revenue Analysis:**

For the year ended September 30, 2005, revenues for the primary government totaled \$364,536,204, compared to \$357,336,473 for the year ending September 30, 2004. Governmental activities provided \$344,634,906 of revenues and the business-type activity provided \$19,902,298 of revenues in 2005 and \$339,699,623 and \$17,636,850 respectively in 2004.

Property taxes represented the largest revenue source for the governmental activities for the two periods. The tax rate for fiscal year 2005 was \$0.331190 and for fiscal year 2004 was \$0.333671 per hundred (\$100) dollars of valuation.

	<u>Year Ended</u> <u>September 30, 2005</u>	<u>Year Ended</u> <u>September 30, 2004</u>
Ad Valorem Tax Revenue	\$ 201,392,700	\$ 192,482,396
Percentage of Total Revenue	58.44%	53.82%
Appraised Value	\$ 66,475,718,533	\$ 63,131,377,385
Percent Increase Over Prior Year	5.30%	9.47%
Taxable Value	\$ 58,103,459,130	\$ 54,490,995,610
Percent Increase Over Prior Year	6.63%	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, 2005 and 2004 program revenues for the County were \$134,109,180 and \$140,751,067, respectively. Program revenue is made up of charges for service and operating grants and contributions. Comparative overviews of these revenues are:

	<u>Year Ended</u> <u>September 30, 2005</u>	<u>Year Ended</u> <u>September 30, 2004</u>
Charges For Service	\$ 87,022,218	\$ 80,835,261
Percentage of Total Revenues	25.25%	22.60%
Grants and Contributions	\$ 45,786,962	\$ 59,915,806
Percentage of Total Revenues	13.29%	16.75%

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.

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• **Expense Analysis**

For the year ended September 30, 2005, the function and program costs for the primary government were \$323,696,501 and \$14,968,664 for the business type activity. Comparative figures for the prior fiscal year are \$330,821,883 and \$15,407,801, 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</u> <u>September 30, 2005</u>		<u>Year Ended</u> <u>September 30, 2004</u>	
Public Safety	\$ 138,802,346	(42.9%)	\$ 132,294,841	(40.0%)
Judicial	59,079,170	(18.3%)	56,763,280	(17.1%)
General Government	60,375,452	(18.6%)	53,248,573	(16.1%)
Public Works	32,688,621	(10.1%)	54,154,408	(16.4%)
Health and Public Welfare	15,593,396	( 4.8%)	14,659,766	(4.4%)
Interest and Other Fees	8,775,159	( 2.7%)	12,445,420	(3.7%)
Education and Recreation	8,267,646	( 2.5%)	7,140,884	(2.2%)
Unallocated Depreciation	<u>114,711</u>	<u>( 0.1%)</u>	<u>114,711</u>	<u>(0.1%)</u>
<b>Total Governmental Activities</b>	<b>\$ <u>323,696,501</u></b>	<b>(100.0%)</b>	<b>\$ <u>330,821,883</u></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, 2005, the County’s governmental funds reported combined fund balances of \$114,320,917 and at September 30, 2004 the County reported \$72,894,375 (as restated), an increase of \$41,426,542 (56.83%). \$26.5 million of the increase was due to the availability of debt proceeds in the Capital Project Fund provided for capital expenditures that were not consumed during the fiscal period. The Debt Service fund reflects a \$3.3 million increase in equity which was mainly derived from the premium the County received with the issuance of bonds. Other Governmental Funds reflect a \$4.2 million increase in available equity due to annual revenues exceeding expenditures. And, the General Fund reflects an increase of \$7.4 million, as a result of operating revenues exceeding operating expenses. Approximately 38.06% 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.

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- **The General Fund**

The General Fund is the chief operating fund of the County. At September 30, 2005, the General Fund reported revenues of \$243 million, an increase of \$20.4 million over the previous year (9.16%) The increase is primarily due to a \$10.9 million (6.82%) increase in ad valorem taxes, \$4.9 million increase in intergovernmental revenues, a \$2.3 million increase in fines and court costs, and \$1.4 million increase in revenue from the use of assets.

Expenditures in the General Fund during the fiscal year were \$232.5 million, an increase of \$12 million (5.5%) over the previous fiscal year. The majority of the increase was due to personnel expenditures, salary and related benefits (\$11.8 million).

<u>Function</u>	<u>Expenditure Increase</u>
General Government	\$2,327,749
Judicial	\$2,253,614
Public Safety	\$7,450,495

Actual expenditures were \$6.3 million less than the appropriated budget for the fiscal period. The fund balance of the County's General Fund had a net increase, \$7.4 million as compared to \$525,786 in the prior year.

Actual realized revenues exceeded budgeted revenues by \$2.2 million, a variance of less than one percent. The more significant variances occurred as follows:

<u>Resource</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Intergovernmental	\$1,790,528	20.53%
Court Costs and Fines	(3,126,913)	(13.93%)
Revenue from Use of Assets	2,136,860	20.20%

- Intergovernmental revenues increased due to additional federal funding received related to the Help America Vote Act (\$1.0 million) that was not anticipated. Additionally during the fiscal period the County received \$551,632 of federal reimbursement for hurricane Katrina assistance.
- Court cost and fine revenue was one \$1 million higher than the previous fiscal period, but due to timing issues related to implementation of new collection efforts, revenues fell short of the anticipated goal.
- Revenue from the use of assets is comprised of interest income. The increase interest income from investment of County funds was due to (1) increase in the interest rates and (2) better management techniques, i.e. taking advantage of the short term rates.

The ending budget for the General Fund reflected an anticipated excess of revenues over expenditures of \$1.6 million. The actual excess of revenues over expenditures on a budgetary basis was \$8.5 million. Actual revenues exceeded budget by \$2.2 million and actual expenditures were \$6.3 million less budget. The County received \$1 million in grant reimbursements that were not anticipated and \$1.2 million in interest income that was not projected during budget process. While County wide expenditures were less than that provided in the budget, two areas were significantly less - General Government expenditures were less than the amount budgeted, \$2.8 million as were Public Safety, \$1.9 million

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- **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 and notes payable. The fund balance at the end of 2005 was \$20,603,746 as compared to the fund balance at the end of 2004, \$17,347,953. At the end of FY 2005, the fund balance increased \$3.26 million (18.77%). During the year ended September 30, 2005, the County retired principal on its outstanding bonded debt of \$16,690,204 and \$213,880 on its outstanding notes payable.

Additionally, the County sold in October 2004 \$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 2006 the County's debt service requirements for the Governmental Activities are \$28,708,789 million - \$14,154,364 principle; \$14,554,425 interest. The requirements for the Business-type Activities are \$12,509,483 - \$4,895,000 principal and \$7,614,483 in 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 2004, the fund balance was \$10,718,573 and at the end of 2005 the fund balance was \$41,563,019. The increase in fund balance (\$30,844,446) represents the net increase in debt funding of \$26,547,532 and the transfer of \$4,296,914 created due to the redefining the purpose of a flood control fund previously designated as a special revenue fund. The majority of the financing (\$43 million) for the current projects was derived from issuance of bonds and certificates of obligation. Additional funding was provided for road and bridge projects through motor vehicle fees (\$11.4 million).

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, 2005. This fund provides the accounting structure for the construction, financing, and leasing of the AT&T 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, 2005, \$80,572,314 of net assets is made up of \$38,144,766 invested in capital assets, net of related debt, \$33,380,475 restricted net assets, and \$9,047,073 of unrestricted net assets. The change in net assets was \$4.6 million from the previous fiscal period.

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Revenues from hotel occupancy and motor vehicle taxes contributed \$16.5 million in revenues in the current fiscal year, a \$2 million increase over the prior period. The net assets were further augmented by \$1.3 million in license fees from the San Antonio Spurs and investment revenue of \$2.1 million.

Operating Expenses for the Venue Fund were \$116,862 and \$7 million in depreciation and amortization. Additionally there was \$7.9 million in interest expense

- **Internal Service Funds**

The Internal Service Funds are used to support activities of the General Fund. For the year ended September 30, 2005, the funds reflected an increase in “total net assets” of \$1.1 million as compared to the prior fiscal year. The “total net assets” for the fund at the end of the current fiscal period was \$2.2 million as compared to \$1.1 million for the previous fiscal period. Revenues were provided through \$24.2 million in premiums, charges for service, sales and other income. Operating expenses for the current fiscal year were \$23.4 million. The largest expenditure area was claims paid through self insurance funds of \$19.8 million. The fund received a net transfer of \$192,000 during the year from the General Fund to assist in covering unanticipated needs.

## **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, 2005, net capital assets of the governmental activities of the County were \$422,687,872 and at September 30, 2004 it was \$420,725,504. Retirements for the County were \$2,025,594 and \$2,432,098 respectively. Depreciation on capital assets is recognized in the government-wide financial statements. Depreciation provided for the current fiscal period was \$26,008,763 as compared to \$25,067,419 for the year ended September 30, 2004. At September 30, 2005 the County’s governmental activities had \$38,102,663 invested in ongoing construction in progress compared to \$41,792,577 at the end of the prior fiscal year. For additional information related to capital asset activity the reader is directed to note E on page 53.

The investment in capital assets in the business-type activity at September 30, 2005 was unchanged from the investment at September 30, 2004 - \$188,452,905. The depreciation provided for the current fiscal year for the business-type activity was \$6,874,708 which was the same as that provided for the year ended September 30, 2004.

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**CAPITAL ASSETS**

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
<b>Governmental Activities:</b>			
Land	\$ 25,167,627	\$ -	\$ 25,167,627
Buildings	244,051,451	82,759,939	161,291,512
Machinery, equipment	52,236,050	25,965,889	26,270,161
Infrastructure	323,078,013	151,222,104	171,855,909
Construction in progress	<u>38,102,663</u>	<u>-</u>	<u>38,102,663</u>
<b>Totals</b>	<u>682,635,804</u>	<u>259,947,932</u>	<u>\$ 422,687,872</u>
<b>Business-Type Activities:</b>			
Buildings	176,278,539	12,919,387	163,359,152
Equipment	<u>12,174,366</u>	<u>7,101,713</u>	<u>5,072,653</u>
<b>Totals</b>	<u>188,452,905</u>	<u>20,021,100</u>	<u>168,431,805</u>
<b>Totals Government-wide</b>	<u>\$ 844,922,233</u>	<u>\$ 248,890,216</u>	<u>\$ 596,032,017</u>

At September 30, 2005, \$24.2 million remained available from the proceeds of bonds and Certificates of Obligation to be used for the support of various capital projects, as compared to \$7.1 million at the end of September 30, 2004.

• **Long-Term Debt**

At September 30, 2005, the County had total long-term debt outstanding of \$292,278,071 as compared to \$275,112,155 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 Road Bonds. At the same time, \$23,960,000 of Combination Tax and Revenue Certificates of Obligation were sold to provide financing for public works projects, and \$3,595,000 of Combination Flood Control Tax and Revenue 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 and 2006.

A comparative overview of the principal requirements for the fiscal year 2006 to fiscal year 2005 is as follows:

	<u>September 30, 2006</u>	<u>September 30, 2005</u>
<b>Governmental Activities:</b>		
Refunding Bonds	\$ 8,160,933	\$ 8,386,918
General Obligation Bonds	948,604	1,733,061
Certificates of Obligations	5,044,827	3,765,225
Tax Note	-	2,805,000
Notes payable	<u>73,260</u>	<u>213,880</u>
<b>Total Requirements</b>	<u>\$ 14,227,624</u>	<u>\$ 16,904,084</u>
<b>Business-type Activities:</b>		
Revenue bonds	<u>\$ 4,895,000</u>	<u>\$ 4,670,000</u>

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Refer to note G on page 56 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 2005 – 2006 on September 13, 2005. The budget was adopted based on anticipated resources and estimated uses in fiscal year 2006. The total available resources for all funds are anticipated to be \$602,000,000. For the County's General Fund total resources are estimated to be \$284,200,000. In addition the Commissioners' Court appropriated the available fund balance of \$25,900,000 at September 30, 2005.

For the fiscal year ending September 30, 2006, the Commissioners' Court maintained the current tax at \$0.33119 based on the increase in valuation. It is anticipated that tax revenues for the general fund will be 4% (\$8,000,000) above what was actually collected for fiscal year 2005. This is due to an increase in taxable valuation of \$5.2 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%. 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.