City of Austin, Texas

Financial Statements as of and for the Year
Ended September 30, 2008, Single Audit Report for
the Year Ended September 30, 2008,
and Independent Auditors’ Report

CITY OF AUSTIN, TEXAS

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council,
City of Austin, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the measurement, recognition, and display of other postemployment benefits for the year ended September 30, 2008.

Management's Discussion and Analysis, the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances —Budget and Actual-Budget Basis, the Retirement Plans — Trend Information, and the Other Post Employment Benefits — Trend Information as described in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Austin's basic financial statements. The accompanying supplemental schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and the State of Texas Uniform Grant Management Standards and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

April 28, 2009

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 48 and No. 50.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2008, resulting in $4.5 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 36% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.9 billion, or 64% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $3.4 billion, or 74% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $560.2 million, or 12% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $1.6 million; unrestricted net assets for business-type activities are approximately $558.6 million, or 19% of total business-type net assets.

Total net assets for the City of Austin increased $154.4 million, or 3.6% during fiscal year 2008. Of this amount, governmental activities decreased $23.7 million, or 1.5% from the previous year and business-type activities increased $178.1 million, or 6.6% from the previous year.

Total revenues for the City increased $299.5 million; revenues for governmental activities increased $24.2 million; revenues for business-type activities increased $275.3 million. Total expenses for the City increased $356.6 million; expenses for governmental activities increased $120.9 million; expenses for business-type activities increased $235.7 million.

In fiscal year 2008, the City implemented GASB Statement No. 45, entitled *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".* This implementation resulted in the recognition of a new other postemployment benefits liability and expense in the government-wide and proprietary fund financial statements totaling $87.5 million. The total actuarial accrued liability for these retiree benefits was approximately $1.0 billion at year end. The City funds these benefits on a pay-as-you-go basis.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:

- government-wide financial statements,
- fund financial statements, and
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

a -- Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The ***Statement of Net Assets*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.

<u>OVERVIEW OF THE FINANCIAL STATEMENTS, continued</u>

- The ***Statement of Activities*** presents information showing how the City's 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities include electric, water, wastewater, airport, convention, environmental and health services, public recreation, and urban growth management.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC), the Austin Industrial Development Corporation (AIDC), and the Mueller Local Government Corporation (MLGC). The operations of AHFC, AIDC, and MLGC are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

b -- Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary, and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations. Other governmental funds are referred to as nonmajor governmental funds and are presented as aggregated data.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level financial statements.

The City's General Fund is reported as a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds is provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers – either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Electric, Water and Wastewater and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and Communications Center; Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication, and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The nonmajor enterprise funds and the internal service funds are combined into separately aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside City government. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

Comparison of government-wide and fund financial components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental - Major
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Electric	Business-type	Proprietary - Major
Water and wastewater	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

Basis of reporting - The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the financial statements

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

d -- Other information

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement and other post employment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

The following table reflects a summary of net assets compared to prior year (in thousands):

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	$ 544,656	520,779	1,395,559	1,413,295	1,940,215	1,934,074
Capital assets	2,258,850	2,167,656	6,038,226	5,672,358	8,297,076	7,840,014
Other noncurrent assets	3,993	3,609	553,101	505,643	557,094	509,252
Total assets	2,807,499	2,692,044	7,986,886	7,591,296	10,794,385	10,283,340
Current liabilities	251,312	229,183	482,405	473,123	733,717	702,306
Noncurrent liabilities	951,675	834,640	4,622,330	4,414,160	5,574,005	5,248,800
Total liabilities	1,202,987	1,063,823	5,104,735	4,887,283	6,307,722	5,951,106
Net assets:						
Invested in capital assets, net of related debt	1,526,481	1,530,124	1,825,599	1,648,758	3,352,080	3,178,882
Restricted	76,478	69,982	497,927	492,356	574,405	562,338
Unrestricted	1,553	28,115	558,625	562,899	560,178	591,014
Total net assets	$ 1,604,512	1,628,221	2,882,151	2,704,013	4,486,663	4,332,234

Total assets of the City increased by $511 million in the current fiscal year. Total liabilities increased by $357 million. Governmental-type total assets increased by $115 million and business-type increased $396 million, while Governmental-type liabilities increased by $139 million and business-type increased $218 million.

Significant factors in the increase of governmental total assets include an increase in capital assets of $91.2 million and an increase in pooled investments and cash of $14.9 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of $22.1 million, consisting of increases to deferred credits and other liabilities of $16.7 million, accrued compensated absences of $5.4 million, accrued payroll of $4.7 million, claims payable of $1.6 million and decreases to accounts payable of $6.5 million. Noncurrent liabilities increased $117 million, consisting primarily of an increase to general obligation bonds payable of $43 million, pension obligation payable of $12.8 million, accrued compensated absences of $5 million and other post employment benefits of $54.9 million.

Significant factors in the increase of business-type total assets include an increase in capital assets of $365.9 million and an increase pooled investments and cash of $71 million. Total liabilities increased by $217.5 million; significant increases include revenue bonds payable of $215 million, other post employment benefits payable of $32.6 million, accounts payable of $17.1 million, deferred credits and other liabilities of $16.4 million and pension obligation of $9.6 million, significant decreases include commercial paper notes payable of $95.8 million, capital appreciation bond interest payable of $6.6 million, and general obligation bonds payable and other tax supported debt of $5.2 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.4 billion, or 75% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $574.4 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $560.2 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $30.8 million in the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for governmental and business-type activities separately.

b -- Changes in net assets

Total net assets of the City increased by $154.4 million in the current fiscal year. Governmental net assets decreased $23.7 million. The decrease is attributable to expenses exceeding revenues by $96.9 million net of transfers from other funds of $73.2 million. Business-type net assets increased by $178.1 million due to revenues exceeding expenses by $251.3 million, net of transfers to other funds of $73.2 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	$ 149,694	132,670	1,845,678	1,594,441	1,995,372	1,727,111
Operating grants and contributions	65,782	57,331	--	--	65,782	57,331
Capital grants and contributions	3,652	2,942	76,881	50,898	80,533	53,840
General revenues:						
Property tax	268,802	258,943	--	--	268,802	258,943
Sales tax	154,445	153,098	--	--	154,445	153,098
Franchise fees and gross receipts tax	93,236	87,180	--	--	93,236	87,180
Grants and contributions not restricted to specific programs	80,178	73,711	--	--	80,178	73,711
Interest and other	29,287	54,963	59,028	60,970	88,315	115,933
Total revenues	845,076	820,838	1,981,587	1,706,309	2,826,663	2,527,147
Program expenses:						
General government	97,945	76,136	--	--	97,945	76,136
Public safety	440,345	397,583	--	--	440,345	397,583
Transportation, planning and sustainability	49,426	48,758	--	--	49,426	48,758
Public health	102,188	94,158	--	--	102,188	94,158
Public recreation and culture	87,975	72,082	--	--	87,975	72,082
Urban growth management	123,115	93,185	--	--	123,115	93,185
Interest on debt	40,954	39,166	--	--	40,954	39,166
Electric	--	--	1,070,999	929,057	1,070,999	929,057
Water	--	--	202,900	162,158	202,900	162,158
Wastewater	--	--	147,059	144,573	147,059	144,573
Airport	--	--	91,557	80,368	91,557	80,368
Convention	--	--	52,911	43,956	52,911	43,956
Environmental and health services	--	--	69,805	55,386	69,805	55,386
Public recreation	--	--	10,169	9,800	10,169	9,800
Urban growth management	--	--	84,886	69,293	84,886	69,293
Total expenses	941,948	821,068	1,730,286	1,494,591	2,672,234	2,315,659
Excess (deficiency) before special items and transfers	(96,872)	(230)	251,301	211,718	154,429	211,488
Transfers	73,163	67,353	(73,163)	(67,353)	--	--
Increase (decrease) in net assets	(23,709)	67,123	178,138	144,365	154,429	211,488
Beginning net assets	1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746
Ending net assets	$ 1,604,512	1,628,221	2,882,151	2,704,013	4,486,663	4,332,234

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

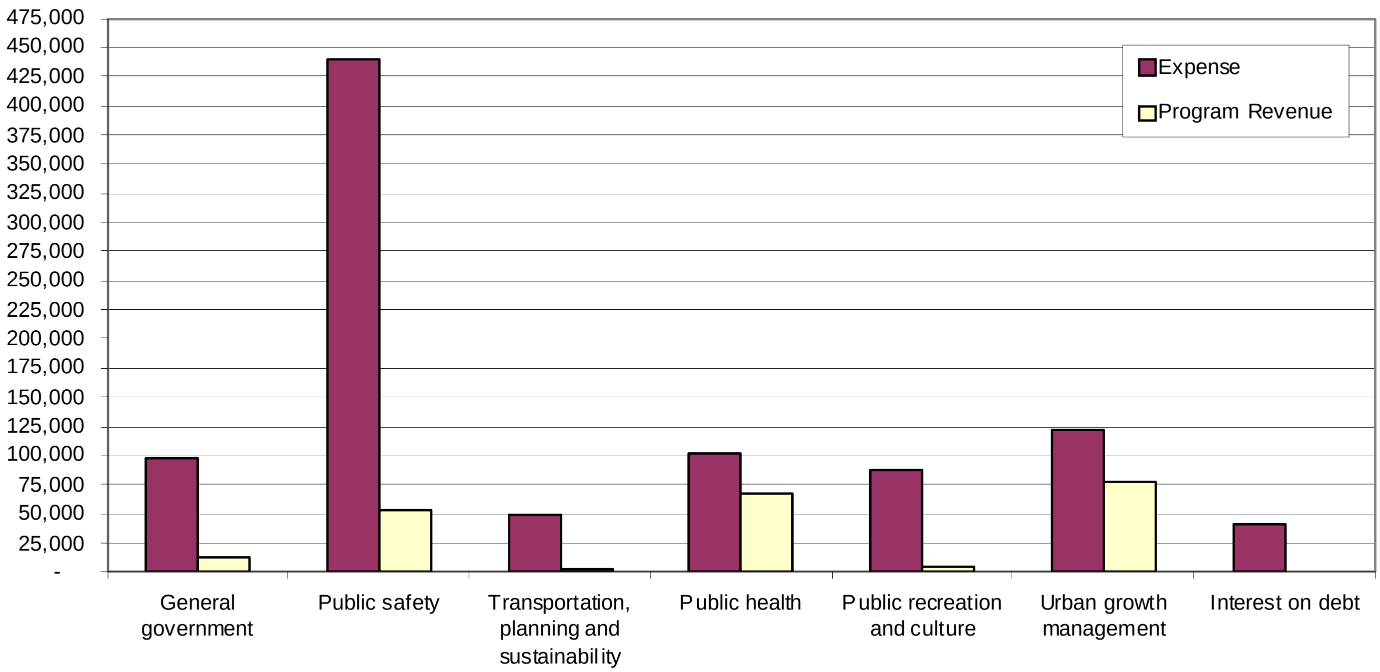
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net assets by $23.7 million in fiscal year 2008, a 1.5% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2007 to 2008 are as follows:

- The City's property tax revenue increased by $9.9 million from the previous year, despite a decrease in the City's tax rate from 41.3 cents to 40.3 per $100 valuation, as a result of an increase in assessed property values.
- Franchise fees and gross receipts taxes increased $6.1 million, largely due to a $1.9 million increase in hotel occupancy tax collections, while sales tax collections increased $1.3 million.
- Grants and contributions not restricted to specific programs increased $6.5 million, primarily due to an increase in property owner's participation and contributions. Grants and contributions restricted to specific programs increased $8.5 million, primarily as a result of higher intergovernmental grant revenues.
- Public safety expenses increased $42.8 million and Urban growth management expenses increased $29.9 million.

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management and interest on debt.

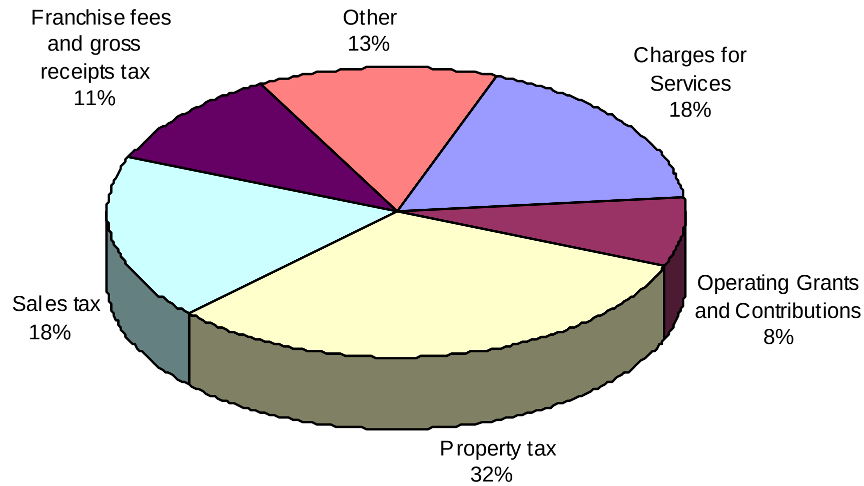
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

General revenues such as property taxes, sales taxes, and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of governmental revenues, followed by sales taxes and charges for goods and services.

Government-wide Revenues by Source -- Governmental Activities



d -- Program revenues and expenses -- business-type activities

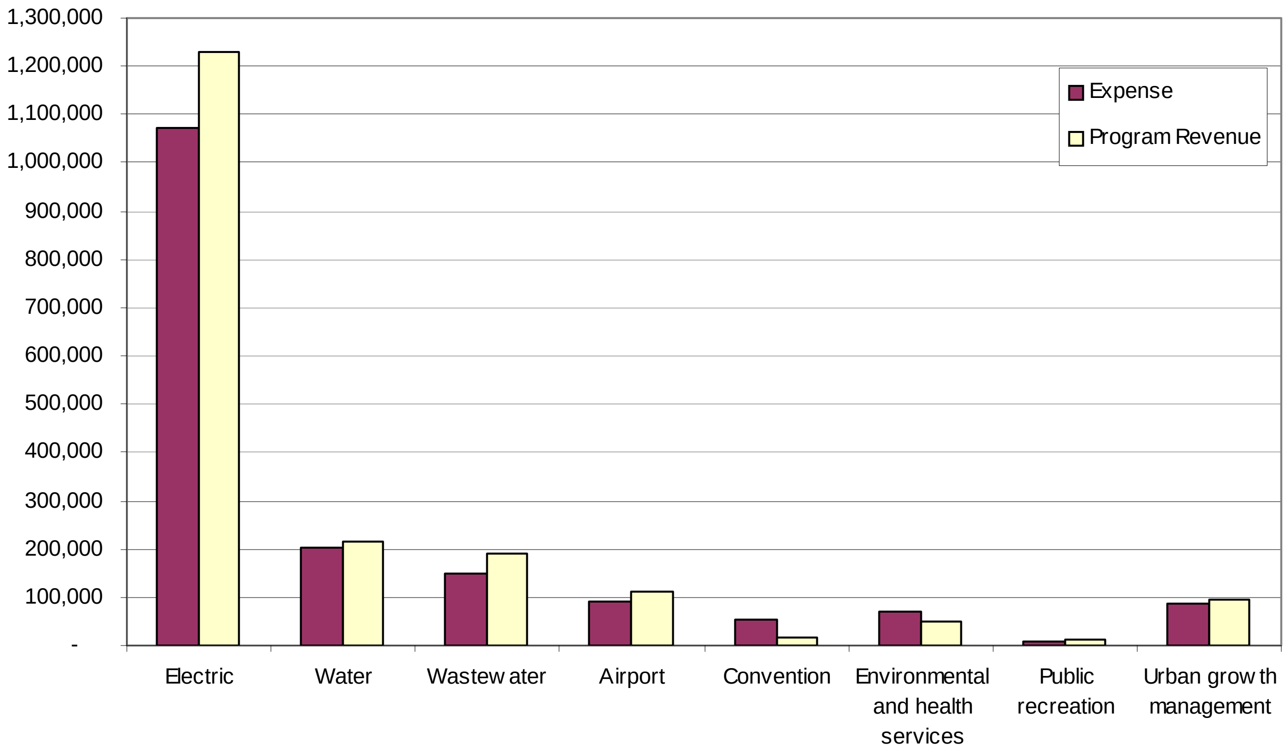
Business-type activities increased the City's net assets by approximately $178 million, accounting for a 4.1% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $109.6 million. This increase is due primarily to an increase in electric consumption due to weather conditions. Revenues increased 15% while expenses increased 17% due to increased operating costs.
- Water and Wastewater net assets increased approximately $30.2 million. This increase is due primarily to increased water consumption due to weather conditions. Water revenue for 2008 increased by approximately 31.2% and Wastewater revenue increased 19.1% from the prior year.
- Airport net assets increased approximately $28.3 million. Revenues increased 6.2% due primarily to increases in parking and terminal lease revenue. Expenses increased due to an increase in operations costs and interest on debt.
- Convention net assets increased approximately $6.9 million. Revenue was 20.5% more than the prior year due to increased demand for convention space and events. Expenses increased due to increases in operations and maintenance costs and interest on debt.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately $18.3 million. This decrease is primarily attributed to inadequate revenues needed to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by $1.3 million primarily due to the reopening of Jimmy Clay Golf Course, which was closed for renovations for nine months during fiscal year 2007.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $21.9 million. Transportation revenues increased 14% primarily due to an increase in the Transportation User Fee rate, while Transportation expenses increased 19.3% largely due to increased street maintenance costs.

As shown in the following chart, the electric utility, with expenses of $1.07 billion, is the City's largest business-type activity, followed by water ($203 million), wastewater ($147 million), airport ($92 million), urban growth management ($85 million), environmental and health services ($70 million), convention ($53 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and environmental and health services.

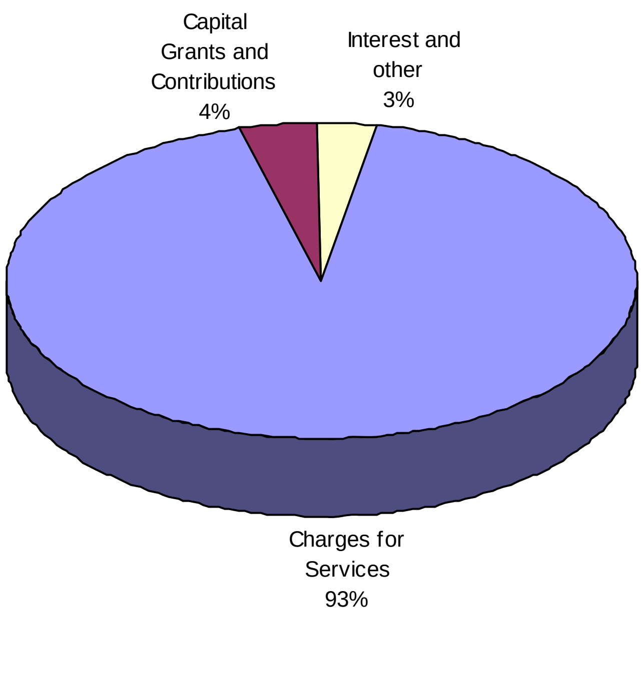
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

Government-wide Expenses and Program Revenues -- Business-type Activities
(Excludes General Revenues and Transfers)
(in thousands)



For all business-type activities, charges for services provide the largest percentage of revenues (93%), followed by interest and other revenues (4%) and capital grants and contributions (3%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a -- Governmental funds
The City reports the following types of governmental funds: the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $329.4 million, an increase of $18.6 million from the previous year. Approximately $219.4 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance decreased $7.9 million in comparison to the prior year, due to a decrease in the reservation for encumbrances of $7.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $85.1 million, while total fund balance was $88.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.8% of total General Fund expenditures of $575.6 million, and total fund balance represents 15.4% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $38.5 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance decreased $18.1 million during the fiscal year, while unreserved fund balance decreased $12.2 million. Significant differences from the previous year include:

- Property tax revenues increased $19.7 million due to an increase in assessed property values. The City's property tax rate decreased from 41.3 cents to 40.3 cents per $100 valuation.
- Sales tax revenues increased $1.3 million, while franchise fees and other taxes increased $3.7 million.
- Fines, forfeitures and penalties increased $2.9 million largely due to traffic fines and other city ordinance fines.
- General fund expenditures increased $39.7 million, due primarily to an increase in public safety expenditures of $24.8 million, an increase in general government expenditures of $4.3 million and an increase in public recreation and culture expenditures of $5.9 million.

b -- Proprietary funds
The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by $178 million.

Factors that contributed to the increase in net assets are discussed in the business-type activities section of the government-wide section.

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2008 for increased public safety and urban growth management costs. The final expenditure budget was $351 thousand higher than the original budget.

During the year, revenues were $4.4 million less than budgeted. Sales tax collections were $10.3 million less than budgeted, while franchise fee revenue was $3.4 million more than budgeted.

Actual General Fund budget-basis expenditures were $11.9 million less than budgeted. Transportation, planning and sustainability expenditures exceeded budget by $15,000; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end was $81.2 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2008, total $8.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and intangible assets. The total increase in the City's capital assets for the current fiscal year was $457 million (5.8%), with an increase of 4.2% for governmental activities and an increase of 6.5% for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

Capital Assets, Net of Accumulated Depreciation
September 30
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land and improvements	$ 302	261	442	365	744	626
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	426	425	1,419	1,367	1,845	1,792
Equipment	79	81	3,367	3,071	3,446	3,152
Vehicles	36	32	58	52	94	84
Infrastructure	1,194	1,167	--	--	1,194	1,167
Construction in progress	203	183	612	680	815	863
Nuclear fuel, net of amortization	--	--	33	28	33	28
Plant held for future use	--	--	28	28	28	28
Intangible assets, net of amortization	--	--	78	80	78	80
Total net capital assets	$ 2,259	2,168	6,038	5,672	8,297	7,840

Major capital asset events during the current fiscal year include the following:

- Governmental capital assets increased $91 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of $366 million. The increase was largely due to Water and Wastewater Fund land acquisition, facility improvements, and wastewater projects associated with the Austin Clean Water Program, as well as for Electric Fund expenditures for general infrastructure improvements and Drainage Fund land acquisitions.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $4.58 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds and other tax supported debt, net	$ 830	787	96	101	926	888
Commercial paper notes, net	--	--	213	309	213	309
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,409	3,194	3,409	3,194
Capital lease obligations	--	--	2	4	2	4
Total	$ 830	787	3,748	3,636	4,578	4,423

During fiscal year 2008, the City's total outstanding debt increased by $155 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $43 million. Issuance of new debt will be used primarily for street improvements, public safety facilities, fire trucks, parks and recreation facilities and affordable housing projects.
- Outstanding debt for business-type functions increased $112 million. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's general obligation bonds received a favorable bond rating upgrade from Standard & Poor's while all other bond ratings were unchanged. Ratings at September 30, 2008 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds and other tax supported debt	Aa1	Aa1	AAA	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA-	AA-	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	A+	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	Aa3	A+	A+	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates

The local economy continued to grow in 2008, with sales tax revenues increasing by 1% and property tax collections increasing by 11% as compared to 2007. Job growth for the area continues to increase, with low growth forecasted in 2009. The local economy is expected to encounter weak economic growth in 2009, but is expected to perform better than the national economy. Nationally, the U.S. economy continues to be impacted by the housing, auto industry, and financial crisis. These issues are expected to impact the local economy as well.

For the upcoming 2009 budget, focus will be on a multi-year budget horizon designed to incorporate national economic conditions and how they are expected to influence the City of Austin and the region over the relative short term. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

The assessed taxable property values within the City increased by 10.95% for 2008. The property tax rate for fiscal year 2009 is 40.12 cents per $100 valuation. The tax rate consists of 27.49 cents for the General Fund and 12.63 cents for debt service. Each 1 cent of the property tax rate is equivalent to $7,626,638 of tax levy, as compared to $6,873.679 in the previous year. Rate increases for the Water and Wastewater Fund are: 9.7% for Water and 4.5% for Wastewater for a combined increase of 7.0%.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial and Administrative Services Department of the City of Austin, P.O. Box 1088, Austin, Texas 78767, or (512) 974-3344 or on the web at http://www.ci.austin.tx.us/controller/.

(In thousands)

	Governmental Activities	Business-type Activities	2008 Total (†)
ASSETS			
Current assets:			
Cash	$ 88	65	153
Pooled investments and cash	391,595	329,471	721,066
Pooled investments and cash - restricted	--	365,713	365,713
Total pooled investments and cash	391,595	695,184	1,086,779
Investments, at fair value	18,489	3,863	22,352
Investments, at fair value - restricted	--	333,144	333,144
Cash held by trustee	3,880	--	3,880
Cash held by trustee - restricted	--	31,472	31,472
Working capital advances	--	7,711	7,711
Property taxes receivable	11,787	--	11,787
Less allowance for uncollectible taxes	(3,592)	--	(3,592)
Net property taxes receivable	8,195	--	8,195
Accounts and other receivables	163,577	209,052	372,629
Less allowance for doubtful accounts	(83,600)	(3,660)	(87,260)
Net accounts receivable	79,977	205,392	285,369
Receivables from other governments	18,142	--	18,142
Notes receivable, net of allowance of $19,042	10,883	--	10,883
Internal balances	(939)	939	--
Internal balances - restricted	(342)	342	--
Inventories, at cost	2,323	86,379	88,702
Real property held for resale	11,291	--	11,291
Prepaid items	232	2,901	3,133
Other assets	842	22,969	23,811
Other receivables - restricted	--	5,198	5,198
Total current assets	544,656	1,395,559	1,940,215
Noncurrent assets:			
Investments held by trustee - restricted	--	114,992	114,992
Interest receivable - restricted	--	1,471	1,471
Capital assets			
Land and other nondepreciable assets	321,637	443,448	765,085
Property, plant, and equipment in service	2,657,966	7,821,069	10,479,035
Less accumulated depreciation	(924,081)	(2,976,053)	(3,900,134)
Net property, plant, and equipment in service	1,733,885	4,845,016	6,578,901
Construction in progress	203,328	611,647	814,975
Nuclear fuel, net of amortization	--	32,730	32,730
Plant held for future use	--	27,783	27,783
Intangible assets, net of amortization	--	77,602	77,602
Total capital assets	2,258,850	6,038,226	8,297,076
Other long-term assets	--	71	71
Deferred costs and expenses, net of amortization	3,993	436,567	440,560
Total noncurrent assets	2,262,843	6,591,327	8,854,170
Total assets	$ 2,807,499	7,986,886	10,794,385

(†) After internal receivables and payables have been eliminated.

(Continued)

The accompanying notes are an integral part of the financial statements.

(In thousands)

	Governmental Activities	Business-type Activities	2008 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 29,280	94,383	123,663
Accounts and retainage payable from restricted assets	--	41,749	41,749
Accrued payroll	27,197	14,679	41,876
Accrued compensated absences	44,841	20,884	65,725
Claims payable	13,600	--	13,600
Accrued interest payable from restricted assets	--	75,801	75,801
Interest payable on other debt	3,459	645	4,104
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	57,297	9,310	66,607
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	1,489	1,489
Revenue bonds payable	--	780	780
Revenue bonds payable payable from restricted assets	--	154,836	154,836
Capital lease obligations payable	166	505	671
Customer and escrow deposits payable from restricted assets	--	30,254	30,254
Nuclear fuel expense payable from restricted assets	--	18,606	18,606
Accrued landfill closure and postclosure costs	--	800	800
Deferred credits and other liabilities	75,472	17,684	93,156
Total current liabilities	251,312	482,405	733,717
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	57,714	3,904	61,618
Claims payable	12,862	--	12,862
Capital appreciation bond interest payable	--	225,615	225,615
Commercial paper notes payable, net of discount	--	213,200	213,200
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	772,719	84,931	857,650
Revenue bonds payable, net of discount and inclusive of premium	--	3,252,964	3,252,964
Pension obligation payable	36,812	30,637	67,449
Other post employment benefits payable	54,882	32,625	87,507
Capital lease obligations payable	316	2,277	2,593
Accrued landfill closure and postclosure costs	--	14,988	14,988
Decommissioning expense payable from restricted assets	--	158,996	158,996
Deferred credits and other liabilities	16,370	571,706	588,076
Other liabilities payable from restricted assets	--	2,487	2,487
Total noncurrent liabilities	951,675	4,622,330	5,574,005
Total liabilities	1,202,987	5,104,735	6,307,722
NET ASSETS			
Invested in capital assets, net of related debt	1,526,481	1,825,599	3,352,080
Restricted for:			
Debt service	14,620	98,113	112,733
Strategic reserve	--	162,151	162,151
Capital projects	43,145	164,593	207,738
Renewal and replacement	--	43,284	43,284
Passenger facility charges	--	19,446	19,446
Operating reserve	--	10,340	10,340
Perpetual Care:			
Expendable	844	--	844
Nonexpendable	1,040	--	1,040
Other purposes	16,829	--	16,829
Unrestricted	1,553	558,625	560,178
Total net assets	$ 1,604,512	2,882,151	4,486,663

(†) After internal receivables and payables have been eliminated.

The accompanying notes are an integral part of the financial statements.

Statement of Activities
For the year ended September 30, 2008
(In thousands)

City of Austin, Texas
Exhibit A-2

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2008 Total**
Governmental activities							
General government	$ 97,945	9,572	114	3,652	(84,607)	--	(84,607)
Public safety	440,345	45,880	7,685	--	(386,780)	--	(386,780)
Transportation, planning, and sustainability	49,426	3,531	--	--	(45,895)	--	(45,895)
Public health	102,188	43,122	23,558	--	(35,508)	--	(35,508)
Public recreation and culture	87,975	3,749	1,504	--	(82,722)	--	(82,722)
Urban growth management	123,115	43,840	32,921	--	(46,354)	--	(46,354)
Interest on debt	40,954	--	--	--	(40,954)	--	(40,954)
Total governmental activities	941,948	149,694	65,782	3,652	(722,820)	--	(722,820)
Business-type activities							
Electric	1,070,999	1,217,735	--	10,807	--	157,543	157,543
Water	202,900	181,515	--	35,139	--	13,754	13,754
Wastewater	147,059	183,608	--	6,215	--	42,764	42,764
Airport	91,557	102,519	--	10,849	--	21,811	21,811
Convention	52,911	17,572	--	--	--	(35,339)	(35,339)
Environmental and health services	69,805	49,190	--	1,121	--	(19,494)	(19,494)
Public recreation	10,169	9,760	--	1,374	--	965	965
Urban growth management	84,886	83,779	--	11,376	--	10,269	10,269
Total business-type activities	1,730,286	1,845,678	--	76,881	--	192,273	192,273
Total	$ 2,672,234	1,995,372	65,782	80,533	(722,820)	192,273	(530,547)
General revenues:							
Property tax					268,802	--	268,802
Sales tax					154,445	--	154,445
Franchise fees and gross receipts tax					93,236	--	93,236
Grants and contributions not restricted to specific programs					80,178	--	80,178
Interest and other					29,287	59,028	88,315
Transfers-internal activities					73,163	(73,163)	--
Total general revenues and transfers					699,111	(14,135)	684,976
Change in net assets					(23,709)	178,138	154,429
Beginning net assets					1,628,221	2,704,013	4,332,234
Ending net assets					$ 1,604,512	2,882,151	4,486,663

The accompanying notes are an integral part of the financial statements.

(In thousands)

	2008		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 68	5	73
Pooled investments and cash	74,422	220,366	294,788
Investments, at fair value	--	18,489	18,489
Cash held by trustee	--	3,223	3,223
Property taxes receivable	7,255	4,532	11,787
Less allowance for uncollectible taxes	(2,277)	(1,315)	(3,592)
Net property taxes receivable	4,978	3,217	8,195
Accounts and other receivables	136,913	23,689	160,602
Less allowance for doubtful accounts	(82,605)	(773)	(83,378)
Net accounts receivable	54,308	22,916	77,224
Receivables from other governments	--	18,142	18,142
Notes receivable, net of allowance	--	10,883	10,883
Due from other funds	227	39,629	39,856
Advances to other funds	--	6,414	6,414
Inventories, at cost	877	--	877
Real property held for resale	--	11,291	11,291
Prepaid items	112	87	199
Other assets	60	782	842
Total assets	135,052	355,444	490,496
LIABILITIES AND FUND BALANCES			
Accounts payable	5,040	12,740	17,780
Accrued payroll	21,068	1,263	22,331
Accrued compensated absences	567	--	567
Due to other funds	--	39,867	39,867
Deferred revenue	16,546	9,813	26,359
Advances from other funds	--	402	402
Deposits and other liabilities	3,141	50,639	53,780
Total liabilities	46,362	114,724	161,086
Fund balances			
Reserved:			
Encumbrances	2,577	58,605	61,182
Inventories and prepaid items	989	87	1,076
Notes receivable	--	10,883	10,883
Advances receivable	--	6,414	6,414
Real property held for resale	--	11,291	11,291
Debt service	--	18,079	18,079
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,737	--	5,737
Future use	845	--	845
Budget stabilization	38,542	--	38,542
Unreserved, undesignated:			
Special revenue	--	56,008	56,008
Capital projects	--	77,469	77,469
Permanent funds	--	844	844
Total fund balances	88,690	240,720	329,410
Total liabilities and fund balances	$ 135,052	355,444	490,496

The accompanying notes are an integral part of the financial statements.

Total fund balances - Governmental funds	$ 329,410
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,204,728
Other long-term assets are not available as current-period resources and are not reported in the funds.	38,409
Long-term liabilities are not payable in the current period and are not reported in the funds.	(1,045,231)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	77,196
Total net assets - Governmental activities	$ 1,604,512

The accompanying notes are an integral part of the financial statements.

(In thousands)

	2008		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 187,975	89,911	277,886
Sales taxes	154,445	--	154,445
Franchise fees and other taxes	41,118	52,118	93,236
Fines, forfeitures and penalties	18,946	5,628	24,574
Licenses, permits and inspections	24,268	--	24,268
Charges for services/goods	29,175	66,901	96,076
Intergovernmental	--	91,765	91,765
Property owners' participation and contributions	--	7,065	7,065
Interest and other	12,639	19,191	31,830
Total revenues	468,566	332,579	801,145
EXPENDITURES			
Current:			
General government	61,935	5,662	67,597
Public safety	394,323	4,737	399,060
Transportation, planning and sustainability	1,112	8,258	9,370
Public health	35,188	56,675	91,863
Public recreation and culture	60,751	12,009	72,760
Urban growth management	22,250	79,242	101,492
Debt service:			
Principal	--	61,800	61,800
Interest	--	40,954	40,954
Capital outlay-capital project funds	--	119,290	119,290
Total expenditures	575,559	388,627	964,186
Excess (deficiency) of revenues over expenditures	(106,993)	(56,048)	(163,041)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	104,060	104,060
Issuance of refunding bonds	--	156,038	156,038
Bond premiums	--	15,090	15,090
Payment to refunding bond escrow agent	--	(171,128)	(171,128)
Transfers in	116,311	57,316	173,627
Transfers out	(27,438)	(68,576)	(96,014)
Total other financing sources (uses)	88,873	92,800	181,673
Net change in fund balances	(18,120)	36,752	18,632
Fund balances at beginning of year	106,810	203,968	310,778
Fund balances at end of year	$ 88,690	240,720	329,410

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2008
(In thousands)

Net change in fund balances - Governmental funds	$	18,632
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		34,859
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(42,260)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		(76,225)
The net revenue of certain activities of internal service funds is reported with governmental activities.		(1,937)
Change in net assets - Governmental activities	$	(23,709)

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Net Assets
September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
ASSETS			
Current assets:			
Cash	$ 18	9	8
Pooled investments and cash	213,733	7,843	1,263
Pooled investments and cash - restricted	152,759	9,218	152,307
Total pooled investments and cash	366,492	17,061	153,570
Investments, at fair value	--	--	--
Investments, at fair value - restricted	238,405	69,658	14,419
Cash held by trustee	--	--	--
Cash held by trustee - restricted	26,936	4,536	--
Working capital advances	7,711	--	--
Accounts receivable	137,573	55,758	4,299
Less allowance for doubtful accounts	(2,141)	(620)	(673)
Net accounts receivable	135,432	55,138	3,626
Due from other funds	200	--	--
Due from other funds - restricted	--	27	--
Inventories, at cost	83,184	1,266	1,565
Prepaid expenses	2,362	453	11
Other assets	22,969	--	--
Other receivables - restricted	870	457	2,252
Total current assets	884,579	148,605	175,451
Noncurrent assets:			
Advances to other funds	2,364	--	--
Advances to other funds - restricted	--	54	124
Investments held by trustee - restricted	114,992	--	--
Interest receivable - restricted	1,471	--	--
Capital assets			
Land and other nondepreciable assets	62,395	204,908	92,770
Property, plant, and equipment in service	3,686,508	2,984,005	679,045
Less accumulated depreciation	(1,705,518)	(964,603)	(169,146)
Net property, plant, and equipment in service	1,980,990	2,019,402	509,899
Construction in progress	275,143	279,536	15,008
Nuclear fuel, net of amortization	32,730	--	--
Plant held for future use	27,783	--	--
Intangible assets, net of amortization	--	77,602	--
Total capital assets	2,379,041	2,581,448	617,677
Other long-term assets	71	--	--
Deferred costs and expenses, net of amortization	247,269	181,400	3,388
Total noncurrent assets	2,745,208	2,762,902	621,189
Total assets	$ 3,629,787	2,911,507	796,640

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	**2008 Total**	**Activities- Internal Service Funds**
ASSETS			
Current assets:			
Cash	30	65	15
Pooled investments and cash	106,632	329,471	96,807
Pooled investments and cash - restricted	51,429	365,713	--
Total pooled investments and cash	158,061	695,184	96,807
Investments, at fair value	3,863	3,863	--
Investments, at fair value - restricted	10,662	333,144	--
Cash held by trustee	--	--	657
Cash held by trustee - restricted	--	31,472	--
Working capital advances	--	7,711	--
Accounts receivable	11,422	209,052	2,285
Less allowance for doubtful accounts	(226)	(3,660)	(222)
Net accounts receivable	11,196	205,392	2,063
Due from other funds	900	1,100	11
Due from other funds - restricted	--	27	--
Inventories, at cost	364	86,379	1,446
Prepaid expenses	75	2,901	33
Other assets	--	22,969	--
Other receivables - restricted	1,619	5,198	--
Total current assets	186,770	1,395,405	101,032
Noncurrent assets:			
Advances to other funds	12	2,376	56
Advances to other funds - restricted	137	315	--
Investments held by trustee - restricted	--	114,992	--
Interest receivable - restricted	--	1,471	--
Capital assets			
Land and other nondepreciable assets	83,375	443,448	713
Property, plant, and equipment in service	471,511	7,821,069	94,508
Less accumulated depreciation	(136,786)	(2,976,053)	(44,725)
Net property, plant, and equipment in service	334,725	4,845,016	49,783
Construction in progress	41,960	611,647	3,626
Nuclear fuel, net of amortization	--	32,730	--
Plant held for future use	--	27,783	--
Intangible assets, net of amortization	--	77,602	--
Total capital assets	460,060	6,038,226	54,122
Other long-term assets	--	71	--
Deferred costs and expenses, net of amortization	4,510	436,567	5
Total noncurrent assets	464,719	6,594,018	54,183
Total assets	651,489	7,989,423	155,215

The accompanying notes are an integral part of the financial statements. (Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
LIABILITIES			
Current liabilities:			
Accounts payable	$ 81,996	4,270	2,377
Accounts and retainage payable from restricted assets	12,664	22,446	1,619
Accrued payroll	6,349	3,214	959
Accrued compensated absences	9,521	4,905	1,261
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	40,382	30,750	2,417
Interest payable on other debt	54	174	1
General obligation bonds payable and other tax supported debt	--	3,180	16
General obligation bonds payable and other tax supported debt payable from restricted assets	160	--	--
Revenue bonds payable	--	780	--
Revenue bonds payable from restricted assets	78,773	59,018	12,325
Capital lease obligations payable	31	4	466
Customer and escrow deposits payable from restricted assets	20,100	6,688	549
Nuclear fuel expense payable from restricted assets	18,606	--	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	10,089	6,756	255
Total current liabilities	278,725	142,185	22,245
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,582	600	236
Claims payable	--	--	--
Advances from other funds	--	4,334	--
Capital appreciation bond interest payable	102,448	123,167	--
Commercial paper notes payable, net of discount	35,148	178,052	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,427	17,342	291
Revenue bonds payable, net of discount and inclusive of premium	1,229,369	1,500,754	306,544
Pension obligation payable	13,640	6,895	2,121
Other post employment benefits payable	13,306	8,223	2,422
Capital lease obligations payable	1,181	--	1,096
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	158,996	--	--
Deferred credits and other liabilities	90,071	477,373	--
Other liabilities payable from restricted assets	--	2,382	105
Total noncurrent liabilities	1,647,168	2,319,122	340,815
Total liabilities	1,925,893	2,461,307	363,060
NET ASSETS			
Invested in capital assets, net of related debt	985,685	381,070	272,321
Restricted for:			
Debt service	48,203	33,402	14,344
Strategic reserve	149,822	5,505	--
Capital projects	42,288	--	106,880
Renewal and replacement	32,066	--	10,000
Passenger facility charges	--	--	19,446
Operating reserve	--	--	8,615
Unrestricted	445,830	30,223	1,974
Total net assets	$ 1,703,894	450,200	433,580
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	4,050	1,765	970
Total net assets - Business-type activities	$ 1,707,944	451,965	434,550

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,740	94,383	11,500
Accounts and retainage payable from restricted assets	5,020	41,749	--
Accrued payroll	4,157	14,679	4,866
Accrued compensated absences	5,197	20,884	6,638
Claims payable	--	--	13,600
Due to other funds	1,100	1,100	27
Accrued interest payable from restricted assets	2,252	75,801	--
Interest payable on other debt	416	645	60
General obligation bonds payable and other tax supported debt	6,114	9,310	3,685
General obligation bonds payable and other tax supported debt payable from restricted assets	1,329	1,489	--
Revenue bonds payable	--	780	--
Revenue bonds payable from restricted assets	4,720	154,836	--
Capital lease obligations payable	4	505	2
Customer and escrow deposits payable from restricted assets	2,917	30,254	--
Nuclear fuel expense payable from restricted assets	--	18,606	--
Accrued landfill closure and postclosure costs	800	800	--
Deferred credits and other liabilities	584	17,684	4,580
Total current liabilities	40,350	483,505	44,958
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,486	3,904	585
Claims payable	--	--	12,862
Advances from other funds	4,220	8,554	205
Capital appreciation bond interest payable	--	225,615	--
Commercial paper notes payable, net of discount	--	213,200	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	65,871	84,931	12,292
Revenue bonds payable, net of discount and inclusive of premium	216,297	3,252,964	--
Pension obligation payable	7,981	30,637	--
Other post employment benefits payable	8,674	32,625	--
Capital lease obligations payable	--	2,277	--
Accrued landfill closure and postclosure costs	14,988	14,988	--
Decommissioning expense payable from restricted assets	--	158,996	--
Deferred credits and other liabilities	4,262	571,706	--
Other liabilities payable from restricted assets	--	2,487	--
Total noncurrent liabilities	323,779	4,630,884	25,944
Total liabilities	364,129	5,114,389	70,902
NET ASSETS			
Invested in capital assets, net of related debt	186,523	1,825,599	36,849
Restricted for:			
Debt service	2,164	98,113	--
Strategic reserve	6,824	162,151	--
Capital projects	15,425	164,593	9,055
Renewal and replacement	1,218	43,284	--
Passenger facility charges	--	19,446	--
Operating reserve	1,725	10,340	--
Unrestricted	73,481	551,508	38,409
Total net assets	287,360	2,875,034	84,313
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	332	7,117	
Total net assets - Business-type activities	287,692	2,882,151	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 1,217,735	365,123	--
User fees and rentals	--	--	84,807
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,217,735	365,123	84,807
OPERATING EXPENSES			
Operating expenses before depreciation	858,317	154,215	52,993
Depreciation and amortization	112,482	78,898	18,276
Total operating expenses	970,799	233,113	71,269
Operating income (loss)	246,936	132,010	13,538
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	43,082	2,321	6,464
Interest on revenue bonds and other debt	(85,775)	(89,526)	(20,921)
Interest capitalized during construction	--	--	900
Passenger facility charges	--	--	17,712
Amortization of bond issue cost	(668)	(678)	(229)
Cost (recovered) to be recovered in future years	(5,514)	(23,780)	--
Other nonoperating expense	(8,987)	(1,881)	(55)
Total nonoperating revenues (expenses)	(57,862)	(113,544)	3,871
Income (loss) before contributions and transfers	189,074	18,466	17,409
Capital contributions	10,807	41,354	10,849
Transfers in	--	--	--
Transfers out	(91,000)	(28,600)	--
Change in net assets	108,881	31,220	28,258
Total net assets - beginning	1,595,013	418,980	405,322
Total net assets - ending	$ 1,703,894	450,200	433,580
Reconciliation to government-wide Statement of Activities			
Change in net assets	108,881	31,220	28,258
Adjustment to consolidate internal service activities	744	(981)	17
Change in net assets - Business-type activities	$ 109,625	30,239	28,275

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	**2008 Total**	**Activities- Internal Service Funds**
OPERATING REVENUES			
Utility services	--	1,582,858	--
User fees and rentals	160,301	245,108	--
Billings to departments	--	--	274,215
Employee contributions	--	--	35,299
Operating revenues from other governments	--	--	3,088
Other operating revenues	--	--	3,587
Total operating revenues	160,301	1,827,966	316,189
OPERATING EXPENSES			
Operating expenses before depreciation	180,494	1,246,019	305,922
Depreciation and amortization	18,487	228,143	9,100
Total operating expenses	198,981	1,474,162	315,022
Operating income (loss)	(38,680)	353,804	1,167
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	7,161	59,028	689
Interest on revenue bonds and other debt	(16,083)	(212,305)	(663)
Interest capitalized during construction	1,932	2,832	--
Passenger facility charges	--	17,712	--
Amortization of bond issue cost	(182)	(1,757)	3
Cost (recovered) to be recovered in future years	--	(29,294)	--
Other nonoperating expense	(2,679)	(13,602)	(5,998)
Total nonoperating revenues (expenses)	(9,851)	(177,386)	(5,969)
Income (loss) before contributions and transfers	(48,531)	176,418	(4,802)
Capital contributions	13,871	76,881	5,316
Transfers in	49,260	49,260	--
Transfers out	(2,823)	(122,423)	(4,450)
Change in net assets	11,777	180,136	(3,936)
Total net assets - beginning	275,583	2,694,898	88,249
Total net assets - ending	287,360	2,875,034	84,313
Reconciliation to government-wide Statement of Activities			
Change in net assets	11,777	180,136	
Adjustment to consolidate internal service activities	(1,778)	(1,998)	
Change in net assets - Business-type activities	9,999	178,138	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,239,293	354,443	86,135
Cash payments to suppliers for goods and services	(752,785)	(82,872)	(32,166)
Cash payments to employees for services	(131,161)	(58,486)	(18,264)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(34,722)	--	--
Net cash provided (used) by operating activities	320,625	213,085	35,705
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(91,000)	(28,600)	--
Interest paid on revenue notes and other debt	(117)	(41)	--
Increase in deferred assets	(943)	--	--
Loans to other funds	--	--	--
Loan repayments to other funds	--	(172)	--
Loan repayments from other funds	70	27	15
Net cash provided (used) by noncapital financing activities	(91,990)	(28,786)	15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	108,514	155,890	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	4,220	--
Principal paid on long-term debt	(89,438)	(65,449)	(12,267)
Purchased interest received	1,105	637	--
Interest paid on revenue bonds and other debt	(67,486)	(79,737)	(19,258)
Passenger facility charges	--	--	17,712
Acquisition and construction of capital assets	(251,292)	(253,480)	(14,200)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	8,948
Contributions in aid of construction	11,090	17,194	--
Bond issuance costs	(1,296)	(1,297)	--
Bond premiums	11	2,544	2
Bonds issued for advanced refundings of debt	115	305,605	20
Cash paid for bond refunding escrow	(119)	(295,705)	(21)
Cash paid for nuclear fuel inventory	(17,514)	--	--
Net cash provided (used) by capital and related financing activities	$ (306,522)	(210,090)	(19,064)

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	161,100	1,840,971	318,134
Cash payments to suppliers for goods and services	(81,440)	(949,263)	(113,353)
Cash payments to employees for services	(81,741)	(289,652)	(105,142)
Cash payments to claimants/beneficiaries	--	--	(78,004)
Taxes collected and remitted to other governments	--	(34,722)	--
Net cash provided (used) by operating activities	(2,081)	567,334	21,635
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	49,260	49,260	--
Transfers out	(2,823)	(122,423)	(4,450)
Interest paid on revenue notes and other debt	--	(158)	--
Increase in deferred assets	--	(943)	--
Loans to other funds	(11)	(11)	--
Loan repayments to other funds	(1,306)	(1,478)	(985)
Loan repayments from other funds	68	180	230
Net cash provided (used) by noncapital financing activities	45,188	(75,573)	(5,205)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	264,404	--
Proceeds from the sale of general obligation bonds and other tax supported debt	1,500	5,720	--
Principal paid on long-term debt	(10,258)	(177,412)	(3,243)
Purchased interest received	2	1,744	--
Interest paid on revenue bonds and other debt	(16,834)	(183,315)	(679)
Passenger facility charges	--	17,712	--
Acquisition and construction of capital assets	(39,538)	(558,510)	(8,679)
Contributions from municipality	--	--	(1,874)
Contributions from state and federal governments	--	8,948	--
Contributions in aid of construction	4,551	32,835	--
Bond issuance costs	(2,951)	(5,544)	--
Bond premiums	384	2,941	--
Bonds issued for advanced refundings of debt	140,766	446,506	2,280
Cash paid for bond refunding escrow	(134,704)	(430,549)	(2,364)
Cash paid for nuclear fuel inventory	--	(17,514)	--
Net cash provided (used) by capital and related financing activities	(57,281)	(592,957)	(14,559)

The accompanying notes are an integral part of the financial statements. (Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (196,894)	(211,052)	(33,594)
Proceeds from sale and maturities of investment securities	192,637	201,250	32,173
Interest on investments	37,249	2,144	5,229
Net cash provided (used) by investing activities	32,992	(7,658)	3,808
Net increase in cash and cash equivalents	(44,895)	(33,449)	20,464
Cash and cash equivalents, October 1	438,341	55,055	133,114
Cash and cash equivalents, September 30	393,446	21,606	153,578
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	246,936	132,010	13,538
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	112,482	76,398	18,276
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(2,611)	--	--
(Increase) decrease in accounts receivable	2,901	(11,108)	906
Increase (decrease) in allowance for doubtful accounts	137	(95)	508
Decrease in due from other funds	--	--	617
(Increase) decrease in inventory	(15,164)	731	(1,565)
Decrease in prepaid expenses and other assets	(21,716)	(328)	--
(Increase) decrease in deferred costs and other expenses	(31,006)	--	--
(Increase) decrease in other long-term assets	73	--	--
Increase (decrease) in accounts payable	15,522	1,420	335
Increase in accrued payroll and compensated absences	1,548	801	356
Decrease in claims payable	--	--	--
Increase in pension obligations payable	4,258	2,154	643
Increase in other post employment benefits payable	13,306	8,223	2,422
Increase (decrease) in deferred credits and other liabilities	(7,592)	(144)	(408)
Increase (decrease) in customer deposits	1,551	523	87
Total adjustments	73,689	81,075	22,167
Net cash provided (used) by operating activities	$ 320,625	213,085	35,705

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities Nonmajor Enterprise Funds	Business-Type Activities 2008 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(38,433)	(479,973)	--
Proceeds from sale and maturities of investment securities	29,038	455,098	--
Interest on investments	7,161	51,783	689
Net cash provided (used) by investing activities	(2,234)	26,908	689
Net increase in cash and cash equivalents	(16,408)	(74,288)	2,560
Cash and cash equivalents, October 1	174,499	801,009	94,919
Cash and cash equivalents, September 30	158,091	726,721	97,479
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(38,680)	353,804	1,167
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,487	225,643	9,100
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(2,611)	--
(Increase) decrease in accounts receivable	4,715	(2,586)	1,366
Increase (decrease) in allowance for doubtful accounts	(4,465)	(3,915)	--
Decrease in due from other funds	--	617	707
(Increase) decrease in inventory	176	(15,822)	(278)
Decrease in prepaid expenses and other assets	(75)	(22,119)	(10)
(Increase) decrease in deferred costs and other expenses	--	(31,006)	43
(Increase) decrease in other long-term assets	--	73	--
Increase (decrease) in accounts payable	(147)	17,130	917
Increase in accrued payroll and compensated absences	1,011	3,716	906
Decrease in claims payable	--	--	4,241
Increase in pension obligations payable	2,533	9,588	--
Increase in other post employment benefits payable	8,674	32,625	--
Increase (decrease) in deferred credits and other liabilities	5,934	(2,210)	3,476
Increase (decrease) in customer deposits	(244)	1,917	--
Total adjustments	36,599	213,530	20,468
Net cash provided (used) by operating activities	(2,081)	567,334	21,635

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ 33,721	(2,654)	--
Increase (decrease) in capital appreciation bond interest payable	(10,058)	3,498	--
Capital assets contributed from (to) other funds	(9,883)	--	(93)
Increase in contributed facilities	--	24,253	--
Increase (decrease) in the fair value of investments	(8,359)	33	(110)
Amortization of bond issue costs	(634)	(678)	(229)
Amortization of bond discounts and premiums	(4,561)	(3,332)	(273)
Amortization of deferred loss on refundings	9,883	5,135	1,085
Loss on disposal of assets	(8,987)	(1,880)	(55)
Deferred gain (loss) on bond refunding	(7)	(6,153)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	14,060	(1,023)	--
Deferred costs (recovered) to be recovered	(3,938)	(23,780)	--
Increase in deferred credits and other liabilities	943	21,135	--
Capital lease obligations	--	--	1,562

The accompanying notes are an integral part of the financial statements.

(Continued)

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	5	31,072	--
Increase (decrease) in capital appreciation bond interest payable	--	(6,560)	--
Capital assets contributed from (to) other funds	220	(9,756)	1,543
Increase in contributed facilities	--	24,253	--
Increase (decrease) in the fair value of investments	(172)	(8,608)	--
Amortization of bond issue costs	(182)	(1,723)	--
Amortization of bond discounts and premiums	(539)	(8,705)	--
Amortization of deferred loss on refundings	1,154	17,257	2
Loss on disposal of assets	(2,539)	(13,461)	(1,982)
Deferred gain (loss) on bond refunding	(455)	(6,615)	(154)
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	(2,415)	10,622	(29)
Deferred costs (recovered) to be recovered	--	(27,718)	--
Increase in deferred credits and other liabilities	--	22,078	(128)
Capital lease obligations	--	1,562	--

The accompanying notes are an integral part of the financial statements.

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,226	4,187
Other assets	121	--
Total assets	1,347	4,187
LIABILITIES		
Accounts payable	--	53
Due to other governments	--	3,319
Deposits and other liabilities	608	815
Total liabilities	608	4,187
NET ASSETS		
Held in trust	739	
Total net assets	$ 739	

The accompanying notes are an integral part of the financial statements.

		Private-purpose Trust
ADDITIONS		
Contributions	$	269
Interest and other		44
Total additions		313
DEDUCTIONS		
Benefit payments		312
Total deductions		312
Net additions (deductions) before transfers		1
Total net assets - beginning		738
Total net assets - ending	$	739

The accompanying notes are an integral part of the financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms and may serve a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a Councilmember.

The City's major activities or programs include general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 48 and No. 50. In fiscal year 2008, the City implemented GASB Statement No. 45 entitled "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", GASB Statement No. 48 entitled "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", and GASB Statement No. 50 entitled "*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*". The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

As required by GAAP, these financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations; therefore, data from these units are combined with data of the City.

Blended Component Units -- The Austin Housing Finance Corporation (AHFC) and Austin Industrial Development Corporation (AIDC) are legally separate entities from the City. AHFC and AIDC serve all the citizens of Austin and are governed by a board composed of the City Councilmembers. The activities are reported in the Housing Assistance Fund and Austin Industrial Development Corporation Fund, which are nonmajor special revenue funds.

The Mueller Local Government Corporation (MLGC) is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation; and members of the City staff serve as officers of the corporation. The entity is reported as a nonmajor special revenue fund in the City's financial statements.

Related Organizations -- The City Council appoints board members, but the City has no significant financial accountability for the following related organizations:

- Capital Metropolitan Transit Authority (Capital Metro) - The City's accountability for this organization does not extend beyond appointing board members.
- Austin-Bergstrom International Airport (ABIA) Development Corporation – City Councilmembers appoint themselves as members of the board, but their function on the board is ministerial rather than substantive.
- Austin-Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. – City Councilmembers appoint members of these boards. Debt issues by these entities do not constitute a debt or pledge of the faith and credit of the City.
- Austin Travis County Mental Health Retardation Center – The nine board members are appointed by the City, Travis County, and the Austin Independent School District.
- Urban Renewal Agency - The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council.
- Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.
- Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

The City of Austin retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

b -- Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise nonmajor fund groupings.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, public health charges, emergency medical service charges, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.

Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt and HUD Section 108 loan principal, interest, and related costs.

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private-purpose funds); they are funded primarily by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for resources that are legally restricted to the extent that only earnings (not principal) may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Proprietary Funds: Consist of enterprise funds and internal service funds.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. In accordance with GASB Statement No. 20, the City has elected to follow GASB for statements issued after November 30, 1989.

The City reports the following major enterprise funds:

Electric Fund: Accounts for the activities of the City-owned electric utility, doing business as Austin Energy ™.

Water and Wastewater Fund: Accounts for the activities of the City-owned water and wastewater utility, doing business as Austin Water™.

Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention – Accounts for convention center and public events activities.
Environmental and health services – Accounts for hospital, primary care, and solid waste services activities.
Public recreation – Accounts for golf and parks and recreation activities.
Urban growth – Accounts for drainage and transportation activities.

Internal Service Funds: Account for the financing of goods or services provided by one city department or agency to other city departments or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, combined emergency center operations, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, support services, wireless communication services, and workers' compensation coverage.

Fiduciary Funds: Account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments:

Private-purpose Trust Funds: Account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture, and urban growth management.

Agency Funds: Account for resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain payroll accruals, employee training and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all city funds (except for certain funds shown in Note 5 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2008. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2008 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 77,776	26,201	33,626	--	--	137,603
Nonmajor governmental funds	926	20	12,274	6,223	4,246	23,689
Internal service funds	2,285	--	--	--	--	2,285
Allowance for doubtful accounts	(70,645)	(12,182)	--	(773)	--	(83,600)
Total	$ 10,342	14,039	45,900	5,450	4,246	79,977

Business-type activities are primarily comprised of charges for services.

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Activities -- In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds."

Inventories -- Inventories are valued at cost, which is determined as follows:

Fund	Inventory Valuation Method
General Fund	Average cost; postage first-in, first-out
Electric:	
Fuel oil and coal	Last-in, first-out
Other inventories	Average cost
All others	Average cost

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund and certain special revenue funds are offset by a fund balance reserve, which indicates that they do not represent "available spendable resources."

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement No. 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

The balance of restricted assets in the enterprise funds are as follows (in thousands):

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 149,822	--	--	--	149,822
Capital projects	60,971	5,074	109,042	38,282	213,369
Customer and escrow deposits	22,389	9,218	549	2,622	34,778
Debt service	88,585	69,658	14,344	10,661	183,248
Federal grants	--	--	2,252	--	2,252
Plant decommissioning	162,994	--	--	--	162,994
Nuclear fuel inventory replacement	18,606	--	--	--	18,606
Operating reserve account	--	--	8,615	8,910	17,525
Passenger facility charge account	--	--	24,300	--	24,300
Renewal and replacement account	32,066	--	10,000	3,372	45,438
	$ 535,433	83,950	169,102	63,847	852,332

Capital assets -- Capital assets, which primarily include land and improvements, buildings and improvements, equipment, vehicles, and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets; related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets are capitalized.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Electric Fund and Water and Wastewater Fund, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Electric Fund and Water and Wastewater Fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

		Business-type Activities			
Assets	**Governmental Activities (1)**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor Enterprise**
Buildings	5-40	15-50	15-50	15-40	12-40
Equipment	5-50	6-40	5-60	4-50	5-40
Vehicles	3-20	3-40	3-20	3-20	3-30
Communication equipment	7-15	7-18	7	7	7
Furniture and fixtures	7-12	12-40	12	10-12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, treasures, and library collections is expected to be maintained over time and, thus, is not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets (other than debt-financed assets of the utility funds, where the gain or loss is deferred in accordance with FASB Statement No. 71).

Intangible assets include the amortized cost of a $100 million contract, net of accumulated amortization of $22 million between the City and the Lower Colorado River Authority (LCRA) for a fifty-year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999. The asset amortization period is 40 years.

Deferred Expenses or Credits -- In accordance with FASB Statement No. 71, certain utility expenses that do not currently require funding are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value of investments, contributions, and gain or loss on disposition of debt-financed assets. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the related debt service requirements. If deferred expenses are not recoverable in future rates, the deferred expenses will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues, expenses, and deferred amounts.

In addition the FASB 71 items above, deferred expenses include debt issuance costs net of amortization.

Compensated Absences -- The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of sick and vacation paid at termination within 60 days of fiscal year-end.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
	56	360	N/A	N/A
Sick leave	0-40	720	1400	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080
	56	1080	N/A	N/A

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.

Other Post Employment Benefits – The City provides certain health care benefits for its retired employees and their families as more fully described in Note 15. In fiscal year 2008, the City implemented GASB Statement No. 45 and is now required to report the actuarially determined cost of these post-employment benefits, other than pensions. At September 30, 2008 the City's total actuarial accrued liability for these retiree benefits was approximately $1.0 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to finance proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. The corresponding debt is recorded in the applicable fund. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by contract revenue bonds, whose principal and interest are payable primarily from the net revenues of Austin Water.

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' statement of net assets. Austin Energy and Austin Water recognize gains or losses on debt defeasance in accordance with FASB Statement No. 71.

Other Long-Term Liabilities -- Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of interest payments on the bonds, is recorded as capital appreciation bond interest payable.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs are reported in accordance with GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"*. The liability for landfill closure and postclosure costs is reported in the Solid Waste Services Fund, a nonmajor enterprise fund.

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below reduced revenues by bad debt expense, as follows (in thousands):

Electric	$	2,093
Water and Wastewater		494
Airport		509
Nonmajor Enterprise		196

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2008 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2008. The amount of unbilled revenue recorded, as of September 30, 2008, for the Electric Fund was $40.3 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2008. The amount of unbilled revenue recorded as of September 30, 2008 was $13.9 million for water and $11.5 million for wastewater.

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. The effect of interfund activity has been eliminated in the government-wide statements. However, if interfund services are provided, and used, such as billing for utility services, the costs and related revenue are not eliminated.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues and receivables are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

Federal and State Grants, Entitlements, and Shared Revenues -- Grants, entitlements, and shared revenues may be accounted for within any city fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures are recognized in the applicable proprietary fund.

Restricted Resources -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed.

Reservations of Fund Equity -- Reservation of fund balances of the governmental funds indicate the portion of fund equity that is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a mutual fund.

Pension Costs -- State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 8).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and a portion of employee health benefits.

The City does not participate in a risk pool but purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites. It complies with GASB Statement No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 14).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 14.

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to more fully understand the City's financial statements for the current period.

g -- Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

a -- Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balance reported in the City's fund-level governmental funds balance sheet ($329.4 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.6 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds - balance sheet		$ 329,410
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	3,084,084	
Less: accumulated depreciation	(879,356)	
Total		2,204,728
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	34,421	
Deferred costs and expenses	3,988	
Total		38,409
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(814,039)	
Pension obligation payable	(36,812)	
Other post employment benefits payable	(54,882)	
Capital lease obligations payable	(480)	
Compensated absences	(94,765)	
Interest payable	(3,399)	
Deferred credits and other liabilities	(40,854)	
Total		(1,045,231)
Internal service funds		77,196
Total net assets - Governmental activities		$ 1,604,512

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

b -- Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change of $18.6 million in fund balances of governmental funds differs from the change in net assets of ($23.7 million) for governmental activities as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ 18,632
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	126,928	
Depreciation expense	(83,544)	
Loss on disposal of capital assets	(162)	
Total		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(9,084)	
Charges for services	731	
Interest and other	371	
Capital assets contribution	42,841	
Total		34,859
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(104,060)	
Principal repayment on long-term debt	61,800	
Total		(42,260)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(10,225)	
Pension obligation	(12,791)	
Other post employment benefits	(54,882)	
Interest and other	1,673	
Total		(76,225)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(1,937)
Change in net assets - Governmental activities		$ (23,709)

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2008, the following funds reported deficits in fund balances (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental		Deficit
Special Revenue Funds:		
Municipal Court Traffic Safety Fund	$	70
Medicaid Administrative Claims		696
Senior Nutrition		10
Performance Contracting Fund		240
Rutherford Lane Facility Fund		644
City Hall Fund		186
I-35 Parking Program		254
RMMA Reimbursement		18
Capital Projects Funds:		
Parks and recreation facilities		288
Libraries		17
Radio Trunking		2,464
Transportation		570
Drainage & Open Spaces		1,563
Parks		1,481
Cultural Facilities		1,714
Central Library		94
Build Austin		281
Build Central Texas		469
Capital reserve		3,813
Watershed Protection		768
City Hall, plaza, parking garage		7,090
Conservation Land		15

There were no deficits in net assets reported in the proprietary financial statements for the current fiscal year.

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2008 (in thousands):

	Pooled Investments and Cash		
		Unrestricted	Restricted
General Fund	$	74,422	--
Nonmajor governmental funds		220,366	--
Electric		213,733	152,759
Water and Wastewater		7,843	9,218
Airport		1,263	152,307
Nonmajor enterprise funds		106,632	51,429
Internal service funds		96,807	--
Fiduciary funds		5,413	--
Subtotal pooled investments and cash		726,479	365,713
Total pooled investments and cash	$	1,092,192	

5 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation, and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee and City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1 or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1 or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Certificates of deposit issued by savings banks domiciled in Texas;
10. Share certificates issued by a state or federal credit unions domiciled in Texas;
11. Money market mutual funds; and
12. Local government investment pools (LGIPs).

The City participates in two Local Government Investment Pools: TexPool and TexasDAILY. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of the pool under a contract with the advisory board.

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2008, TexPool and TexasDAILY had a weighted average maturity of 42 days and 40.7 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2008.

All city investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2008 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 18,489	208,455	--	226,944
Money Market Funds	--	26,936	--	26,936
US Treasury Notes	--	150,773	--	150,773
US Agency Bonds	--	92,770	--	92,770
Total non-pooled investments	18,489	478,934	--	497,423
Pooled investments:				
Local Government Investment Pools	109,418	194,236	1,497	305,151
US Treasury Notes	14,598	25,916	202	40,716
US Agency Bonds	268,722	477,050	3,714	749,486
Total pooled investments (1)	392,738	697,202	5,413	1,095,353
Total investments	$ 411,227	1,176,136	5,413	1,592,776

(1) A difference of $3.2 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2008, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank ($179.6 or 11%), Federal Home Loan Bank ($342.2 or 21%), Federal Home Loan Mortgage Corporation ($142.8 or 9%), and Federal National Mortgage Association ($162.5 or 10%).

b -- Investment categories

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding a special project fund;
2. Debt service funds;
3. Special project fund.

Complying with the City's Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations, controls the City's credit risk.

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories

Operating Funds
As of September 30, 2008, the City operating funds had the following investments:

	Fair Value (in thousands)					
Investment Type	**Governmental Activities**		**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Invest Pools (LGIPs)	$	109,418	194,236	1,497	305,151	1
US Treasury Notes		14,598	25,916	202	40,716	409
US Agency Bonds		268,722	477,050	3,714	749,486	490
Total	$	392,738	697,202	5,413	1,095,353	351

Credit Risk
Approximately 4% of the portfolio consists of direct obligations of the US government. As of September 30, 2008, Standard and Poor's issued the following ratings for other investments:

LGIPs	28%	AAAm
US Agencies - Rated	67%	AAA

The remaining 1% in portfolio securities were unrated, as follows:

Investment	Final Maturity	Fair Value in Thousands
Federal Agricultural Mortgage Corporation	2/15/2009	$15,252

At September 30, 2008, the operating funds held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($156.0 or 14 percent), Federal Home Loan Bank ($297.6 or 27 percent), Federal National Mortgage Association ($145.4 or 13 percent), Federal Home Loan Mortgage Corporation ($135.3 or 12 percent).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2008, slightly more than a quarter of the Investment Pool was invested in AAAm rated LGIPs (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 351 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Debt Service Funds
As of September 30, 2008, the City's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 18,489	--	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	158,243	N/A
Enterprise-Airport			
TexPool (LGIPs)	--	14,344	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	14,525	N/A
Total	$ 18,489	187,112	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2008, Standard and Poor's rated both TexPool and TexasDAILY AAAm.

Interest Rate Risk
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

At September 30, 2008, portfolios in this category held investments in overnight securities (LGIPs).

Special Project Fund
As of September 30, 2008, the City's special project fund had the following investments:

	Fair Value (in thousands)	
	Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 75	N/A
Total special projects fund	$ 75	

Credit Risk
As of September 30, 2008, Standard and Poor's rated TexPool AAAm.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2008, the portfolio in this category held investments in overnight securities (LGIPs).

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Special Purpose Funds

Austin Energy Strategic Reserve Fund

As of September 30, 2008, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 21,268	1
US Treasury Notes	72,660	889
US Agency Bonds	55,892	774
Total	$ 149,820	716

Credit Risk

At September 30, 2008, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2008, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($35.7 or 24 percent), and Federal National Mortgage Association ($15.1 or 10%).

Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2008, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 716 days (1.96 years).

Austin Energy Nuclear Decommissioning Trust Funds

As of September 30, 2008, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 78,113	3.79
US Agency Bonds	36,879	5.21
Money Market fund	26,936	1 day
Total	$ 141,928	3.54

Credit Risk

As of September 30, 2008, Standard and Poor's rated the US Agency Bonds AAA and the money market fund AAAm. The remaining securities are direct obligations of the US government.

At September 30, 2008, the NDTF held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($8.9 or 6 percent), Federal Home Loan Mortgage Corporation ($7.5 or 5 percent), and Federal Farm Credit Bank ($18.4 or 13 percent).

5 – INVESTMENTS AND DEPOSITS, continued
c – Investments and Deposits

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2008, the dollar weighted average maturity was 3.54 years.

Investments and deposits portfolio balances at September 30, 2008, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 22,457	483,535	--	505,992
Pooled investments and cash	396,713	704,259	5,413	1,106,385
Total investments and cash	419,170	1,187,794	5,413	1,612,377
Unrestricted cash	3,968	65	--	4,033
Restricted cash	--	31,472	--	31,472
Pooled investments and cash	396,713	704,259	5,413	1,106,385
Investments	18,489	451,998	--	470,487
Total investments and cash	$ 419,170	1,187,794	5,413	1,612,377

A difference of $14.2 million exists between portolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2008, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Cash			
Unrestricted	$ 88	65	153
Cash held by trustee			
Unrestricted	3,880	--	3,880
Restricted	--	31,472	31,472
Pooled cash	3,975	7,057	11,032
Total deposits	$ 7,943	38,594	46,537

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2008.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2007, upon which the 2008 levy was based, was $68,736,790,926.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2008, 99.14% of the current tax levy (October 1, 2007) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

6 – PROPERTY TAXES, continued

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District and the Williamson County Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every two years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District has chosen to review the value of property every two years, while the Williamson County Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the city limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, as adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, State statute allows qualified voters of the City to petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the city charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by state statute and city charter limitations. Through contractual arrangements, Travis and Williamson Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2008, was $.2730 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7270 per $100 assessed valuation, and could levy approximately $499,716,470 in additional taxes from the assessed valuation of $68,736,790,926 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2008 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds		
Major fund:		
Airport	$	900
Nonmajor enterprise funds:		
Convention Center		556
Drainage		973
Golf		13
Solid Waste Services		390

Interest is not capitalized on governmental capital assets. In accordance with FASB Statement No. 71, interest is also not capitalized on electric and water and wastewater capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capital asset balances as of September 30, 2008 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 302,462	442,014	744,476
Arts and treasures	5,362	1,434	6,796
Library collections	13,813	--	13,813
Total	321,637	443,448	765,085
Depreciable property, plant, and equipment in service			
Building and improvements	588,894	2,146,212	2,735,106
Plant and equipment	164,461	5,549,991	5,714,452
Vehicles	91,112	124,866	215,978
Infrastructure	1,813,499	--	1,813,499
Total	2,657,966	7,821,069	10,479,035
Less accumulated depreciation for			
Building and improvements	(162,808)	(727,012)	(889,820)
Plant and equipment	(85,729)	(2,182,546)	(2,268,275)
Vehicles	(55,010)	(66,495)	(121,505)
Infrastructure	(620,534)	--	(620,534)
Total	(924,081)	(2,976,053)	(3,900,134)
Net property, plant, and equipment in service	1,733,885	4,845,016	6,578,901
Other capital assets not depreciated			
Construction in progress	203,328	611,647	814,975
Nuclear fuel, net of amortization	--	32,730	32,730
Plant held for future use	--	27,783	27,783
Intangible assets, net of amortization	--	77,602	77,602
Total capital assets	$ 2,258,850	6,038,226	8,297,076

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 261,328	44,817	(3,683)	302,462
Arts and treasures	5,153	209	--	5,362
Library collections	13,761	52	--	13,813
Total	280,242	45,078	(3,683)	321,637
Depreciable property, plant, and equipment in service				
Building and improvements	570,368	18,533	(7)	588,894
Plant and equipment	152,248	14,652	(2,439)	164,461
Vehicles	81,723	12,112	(2,723)	91,112
Infrastructure	1,736,284	77,215	--	1,813,499
Total	2,540,623	122,512	(5,169)	2,657,966
Less accumulated depreciation for				
Building and improvements	(145,571)	(17,238)	1	(162,808)
Plant and equipment	(70,835)	(17,317)	2,423	(85,729)
Vehicles	(50,221)	(7,366)	2,577	(55,010)
Infrastructure	(569,812)	(50,722)	--	(620,534)
Total	(836,439)	(92,643) (2)	5,001	(924,081)
Net property, plant, and equipment in service	1,704,184	29,869	(168)	1,733,885
Other capital assets not depreciated				
Construction in progress	183,230	127,017	(106,919)	203,328
Total capital assets	$ 2,167,656	201,964	(110,770)	2,258,850

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Governmental activities:	
General government	$ 3,840
Public safety	12,041
Transportation, planning, and sustainability	42,849
Public health	1,594
Public recreation and culture	8,573
Urban growth management	14,646
Internal service funds	9,100
Total increases in accumulated depreciation	$ 92,643

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 59,662	2,733	--	62,395
Total	59,662	2,733	--	62,395
Depreciable property, plant, and equipment in service				
Building and improvements	652,080	2,499	(675)	653,904
Plant and equipment	2,859,225	155,751	(9,713)	3,005,263
Vehicles	25,320	2,881	(860)	27,341
Total	3,536,625	161,131	(11,248)	3,686,508
Less accumulated depreciation for				
Building and improvements	(310,904)	(16,923)	--	(327,827)
Plant and equipment	(1,287,337)	(93,711)	20,459 (2)	(1,360,589)
Vehicles	(16,080)	(1,848)	826	(17,102)
Total	(1,614,321)	(112,482) (1)	21,285	(1,705,518)
Net property, plant, and equipment in service	1,922,304	48,649	10,037	1,980,990
Other capital assets not depreciated				
Construction in progress	192,047	246,981	(163,885)	275,143
Nuclear fuel, net of amortization	27,622	5,108	--	32,730
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,229,418	303,471	(153,848)	2,379,041

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 112,482
Total increases in accumulated depreciation	$ 112,482

(2) Capital asset activity includes a decrease in accumulated depreciation of approximately $16 million to properly reflect retirements of certain assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 145,357	59,551	--	204,908
Total	145,357	59,551	--	204,908
Depreciable property, plant, and equipment in service				
Building and improvements	429,924	96,986	(183)	526,727
Plant and equipment	2,166,886	264,053	(3,715)	2,427,224
Vehicles	25,831	4,685	(462)	30,054
Total	2,622,641	365,724	(4,360)	2,984,005
Less accumulated depreciation for				
Building and improvements	(146,089)	(16,825)	--	(162,914)
Plant and equipment	(728,145)	(57,482)	958	(784,669)
Vehicles	(15,437)	(2,091)	508	(17,020)
Total	(889,671)	(76,398) (2)	1,466	(964,603)
Net property, plant, and equipment in service	1,732,970	289,326	(2,894)	2,019,402
Other capital assets not depreciated				
Construction in progress	435,118	242,924	(398,506)	279,536
Intangible assets, net of amortization	80,102	--	(2,500)	77,602
Total capital assets	$ 2,393,547	591,801	(403,900)	2,581,448

(1) Increases and decreases do not include transfers (at net book value) between Water and Wastewater funds.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 34,468
Wastewater	41,930
Total increases in accumulated depreciation	$ 76,398

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 87,650	4,298	--	91,948
Arts and treasures	778	44	--	822
Total	88,428	4,342	--	92,770
Depreciable property, plant, and equipment in service				
Building and improvements	641,436	10,133	--	651,569
Plant and equipment	19,901	2,016	(188)	21,729
Vehicles	5,518	426	(197)	5,747
Total	666,855	12,575	(385)	679,045
Less accumulated depreciation for				
Building and improvements	(141,023)	(16,472)	--	(157,495)
Plant and equipment	(7,379)	(1,426)	92	(8,713)
Vehicles	(2,743)	(378)	183	(2,938)
Total	(151,145)	(18,276) (1)	275	(169,146)
Net property, plant, and equipment in service	515,710	(5,701)	(110)	509,899
Other capital assets not depreciated				
Construction in progress	16,303	14,756	(16,051)	15,008
Total capital assets	$ 620,441	13,397	(16,161)	617,677

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 18,276
Total increases in accumulated depreciation	$ 18,276

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 72,142	10,621	--	82,763
Arts and treasures	612	--	--	612
Total	72,754	10,621	--	83,375
Depreciable property, plant, and equipment in service				
Building and improvements	311,959	2,462	(409)	314,012
Plant and equipment	74,234	22,772	(1,231)	95,775
Vehicles	57,646	10,717	(6,639)	61,724
Total	443,839	35,951	(8,279)	471,511
Less accumulated depreciation for				
Building and improvements	(70,023)	(9,120)	367	(78,776)
Plant and equipment	(25,970)	(3,601)	996	(28,575)
Vehicles	(28,341)	(5,766)	4,672	(29,435)
Total	(124,334)	(18,487) (2)	6,035	(136,786)
Net property, plant, and equipment in service	319,505	17,464	(2,244)	334,725
Other capital assets not depreciated				
Construction in progress	36,693	41,330	(36,063)	41,960
Total capital assets	$ 428,952	69,415	(38,307)	460,060

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 7,886
Other nonmajor enterprise funds	10,601
Total increases in accumulated depreciation	$ 18,487

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 364,811	77,203	--	442,014
Arts and treasures	1,390	44	--	1,434
Total	366,201	77,247	--	443,448
Depreciable property, plant, and equipment in service				
Building and improvements	2,035,399	112,080	(1,267)	2,146,212
Plant and equipment	5,120,246	444,589	(14,844)	5,549,991
Vehicles	114,315	18,470	(7,919)	124,866
Total	7,269,960	575,139	(24,030)	7,821,069
Less accumulated depreciation for				
Building and improvements	(668,039)	(59,340)	367	(727,012)
Plant and equipment	(2,048,831)	(156,220)	22,505 (3)	(2,182,546)
Vehicles	(62,601)	(10,083)	6,189	(66,495)
Total	(2,779,471)	(225,643) (2)	29,061	(2,976,053)
Net property, plant, and equipment in service	4,490,489	349,496	5,031	4,845,016
Other capital assets not depreciated				
Construction in progress	680,161	545,991	(614,505)	611,647
Nuclear fuel, net of amortization	27,622	5,108	--	32,730
Plant held for future use	27,783	--	--	27,783
Intangible assets, net of amortization	80,102	--	(2,500)	77,602
Total capital assets	$ 5,672,358	977,842	(611,974)	6,038,226

(1) Increases and decreases do not include transfers (at net book value) between business-type activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Business-type activities:	
Electric	$ 112,482
Water	34,468
Wastewater	41,930
Airport	18,276
Convention Center	7,886
Other nonmajor enterprise funds	10,601
Total increases in accumulated depreciation	$ 225,643

(3) Capital asset activity for the Electric Fund includes a decrease in accumulated depreciation of approximately $16 million to properly reflect retirements of certain assets.

8 – RETIREMENT PLANS
a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2007. Membership in the plans at December 31, 2007, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	4,461	454	475	5,390
Current employees	8,358	1,535	1,047	10,940
Total	12,819	1,989	1,522	16,330

Each plan provides service retirement, death, disability, and withdrawal benefits. State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752 www.coaers.org	(512)458-2551
Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 205 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	13.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

(1) The City contributes two-thirds of the cost of prior service benefit payments.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2008, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 34,229	19,872	13,552	67,653
Employees	34,093	14,343	11,788	60,224
Total contributions	$ 68,322	34,215	25,340	127,877

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $91,555,000 for fiscal year ended September 30, 2008, was $23,902,000 more than the City’s actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2006	$ 40,988	18,047	12,976	72,011
2007	49,818	18,047	11,737	79,602
2008	56,848	19,872	14,835	91,555
Percentage of APC contributed:				
2006	73%	100%	92%	N/A
2007	63%	100%	106%	N/A
2008	65%	100%	87%	N/A
Net Pension Obligation:				
2006	$ 24,061	--	1,609	25,670
2007	43,334	--	1,737	45,071
2008	63,740	--	3,709	67,449

8 – RETIREMENT PLANS, continued
c -- Annual Pension Cost and Net Pension Obligation, continued

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2007 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 56,080	14,788	70,868
Interest in net pension obligation	3,358	135	3,493
Adjustment to annual required contribution	(2,590)	(88)	(2,678)
Annual pension cost	56,848	14,835	71,683
Employer contributions	(36,442)	(12,863)	(49,305)
Change in net pension obligation	20,406	1,972	22,378
Beginning net pension obligation	43,334	1,737	45,071
Net pension obligation	$ 63,740	3,709	67,449

The latest actuarial valuations were completed as of December 31, 2007. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	20% of market value plus 80% of expected actuarial value
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	4.5% to 16.6%
Post retirement benefit increase	None	None	None
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	23.8 years	30 years

8 – RETIREMENT PLANS, continued
d -- Schedule of funding progress

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

Valuation Date, December 31, 2007	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees	$ 1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
Police Officers	482,303	637,560	155,257	75.6%	111,809	138.9%
Fire Fighters (2)	584,420	586,802	2,382	99.6%	76,556	3.1%

(1) UAAL – Unfunded Actuarial Accrued Liability
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater
The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $58 million in 2008. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, City management has elected not to enter the retail market, as allowed by State law.

Electric rates include a fixed rate and a fuel recovery cost-adjustment factor that allows recovery of coal, gas, purchased power, and other fuel costs. If actual fuel costs differ from amounts billed to customers, deferred or unbilled revenues are recorded by the electric utility. Any over- or under-collections are applied to the cost-adjustment factor. The fuel factor is revised annually on a calendar year basis or when over- or under-recovery is more than 10% of expected fuel costs.

9 – SELECTED REVENUES, continued
a -- Major enterprise funds, continued

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2008, the Airport Fund revenues included minimum concession guarantees of $8,441,659.

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2008 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2009	$ 5,435
2010	891
2011	646
2012	646
2013	646
2014-2018	721
2019-2023	366
Totals	$ 9,351

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2006, through April 30, 2009. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

10 – DEBT AND NON-DEBT LIA0BILITIES
a -- Long-Term Liabilities

The following is a summary of long-term obligation balances at September 30, 2008 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 726,678	24,370	751,048
Certificates of obligation	71,925	34,971	106,896
Contractual obligations	31,413	29,211	60,624
Other tax supported debt	--	7,178	7,178
General obligation bonds and other tax supported debt total	830,016	95,730	925,746
Commercial paper	--	213,200	213,200
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,406,897	3,406,897
Contract revenue bonds	--	1,683	1,683
Capital lease obligations	482	2,782	3,264
Debt service requirements total	830,498	3,748,292	4,578,790
Other long-term obligations			
Accrued compensated absences	102,555	24,788	127,343
Claims payable	26,462	--	26,462
Accrued landfill closure and postclosure costs	--	15,788	15,788
Decommissioning expense payable	--	158,996	158,996
Pension obligation payable	36,812	30,637	67,449
Other post employment benefits	54,882	32,625	87,507
Other liabilities	91,842	622,131	713,973
	312,553	884,965	1,197,518
Total long-term obligations	$ 1,143,051	4,633,257	5,776,308

This schedule excludes select current liabilities of $59,936 for governmental activities and $245,863 for business-type activities and capital appreciation bond interest payable of $225,615 for business-type activities.

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2008 (in thousands):

Description	September 30, 2007	Increases	Decreases	September 30, 2008	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 659,761	270,301	(203,384)	726,678	45,289
Certificates of obligation, net	94,919	3,820	(26,814)	71,925	6,405
Contractual obligations, net	32,227	4,035	(4,849)	31,413	5,603
General obligation bonds and other tax supported debt total	786,907	278,156	(235,047)	830,016	57,297
Capital lease obligations	475	7	--	482	166
Debt service requirements total	787,382	278,163	(235,047)	830,498	57,463
Other long-term obligations					
Accrued compensated absences	92,102	10,890	(437)	102,555	44,841
Claims payable	22,221	13,688	(9,447)	26,462	13,600
Pension obligation payable	24,022	12,790	--	36,812	--
Other post employment benefits	--	68,095	(13,213)	54,882	--
Other liabilities	76,476	20,750	(5,384)	91,842	75,472
Governmental activities total	1,002,203	404,376	(263,528)	1,143,051	191,376
Business-type activities:					
Electric activities					
General obligation bonds, net	1,231	126	(147)	1,210	14
Contractual obligations	517	--	(140)	377	146
General obligation bonds and other tax supported debt total	1,748	126	(287)	1,587	160
Commercial paper notes, net	149,941	108,514	(223,307)	35,148	--
Revenue bonds, net	1,167,299	229,501	(88,658)	1,308,142	78,773
Capital lease obligations	1,242	--	(30)	1,212	31
Debt service requirements total	1,320,230	338,141	(312,282)	1,346,089	78,964
Other long-term obligations					
Accrued compensated absences	10,816	1,050	(763)	11,103	9,521
Decommissioning expense payable	148,763	159,665	(149,432)	158,996	--
Pension obligation payable	9,382	4,258	--	13,640	--
Other post employment benefits	--	13,306	--	13,306	--
Other liabilities	122,492	22,424	(24,656)	120,260	30,189
Electric activities total	1,611,683	538,844	(487,133)	1,663,394	118,674
Water and Wastewater activities					
General obligation bonds, net	2,734	--	(669)	2,065	469
Contractual obligations, net	8,974	4,220	(1,915)	11,279	2,179
Other tax supported debt, net	7,768	--	(590)	7,178	532
General obligation bonds and other tax supported debt total	19,476	4,220	(3,174)	20,522	3,180
Commercial paper notes, net	159,062	155,890	(136,900)	178,052	--
Revenue bonds, net	1,474,228	305,786	(221,145)	1,558,869	59,018
Contract revenue bonds, net	2,423	--	(740)	1,683	780
Capital lease obligations	1,327	2	(1,325)	4	4
Debt service requirements total	1,656,516	465,898	(363,284)	1,759,130	62,982
Other long-term obligations					
Accrued compensated absences	5,373	454	(322)	5,505	4,905
Pension obligation payable	4,741	2,154	--	6,895	--
Other post employment benefits	--	8,223	--	8,223	--
Other liabilities	471,919	41,864	(20,584)	493,199	13,444
Water and Wastewater activities total	2,138,549	518,593	(384,190)	2,272,952	81,331

(1) Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

a -- Long-Term Liabilities, continued

Business-type activities (continued):

Description	September 30, 2007	Increases	Decreases	September 30, 2008	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	334	20	(47)	307	16
General obligation bonds and other tax supported debt total	334	20	(47)	307	16
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	329,835	--	(10,966)	318,869	12,325
Capital lease obligations	2,001	--	(439)	1,562	466
Debt service requirements total	360,170	20	(11,452)	348,738	12,807
Other long-term obligations					
Accrued compensated absences	1,313	184	--	1,497	1,261
Pension obligation payable	1,478	643	--	2,121	-
Other post employment benefits	--	2,422	--	2,422	-
Other liabilities	1,846	204	(1,141)	909	804
Airport activities total	364,807	3,473	(12,593)	355,687	14,872
Nonmajor activities					
General obligation bonds, net	12,294	18,371	(9,877)	20,788	1,496
Certificates of obligation, net	47,413	2,202	(14,644)	34,971	2,095
Contractual obligations	19,663	4,000	(6,108)	17,555	3,852
General obligation bonds and other tax supported debt total	79,370	24,573	(30,629)	73,314	7,443
Revenue bonds, net	219,818	126,705	(125,506)	221,017	4,720
Capital lease obligations	2	2	--	4	4
Debt service requirements total	299,190	151,280	(156,135)	294,335	12,167
Other long-term obligations					
Accrued compensated absences	6,498	634	(449)	6,683	5,197
Accrued landfill closure and postclosure costs	10,075	5,713	--	15,788	800
Pension obligation payable	5,448	2,533	--	7,981	--
Other post employment benefits	--	8,674	--	8,674	--
Other liabilities	7,786	286	(309)	7,763	3,501
Nonmajor activities total	328,997	169,120	(156,893)	341,224	21,665
Total business-type activities					
General obligation bonds, net	16,593	18,517	(10,740)	24,370	1,995
Certificates of obligation, net	47,413	2,202	(14,644)	34,971	2,095
Contractual obligations, net	29,154	8,220	(8,163)	29,211	6,177
Other tax supported debt, net	7,768	--	(590)	7,178	532
General obligation bonds and other tax supported debt total	100,928	28,939	(34,137)	95,730	10,799
Commercial paper notes, net	309,003	264,404	(360,207)	213,200	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,191,180	661,992	(446,275)	3,406,897	154,836
Contract revenue bonds	2,423	--	(740)	1,683	780
Capital lease obligations	4,572	4	(1,794)	2,782	505
Debt service requirements total	3,636,106	955,339	(843,153)	3,748,292	166,920
Other long-term obligations					
Accrued compensated absences	24,000	2,322	(1,534)	24,788	20,884
Accrued landfill closure and postclosure costs	10,075	5,713	--	15,788	800
Decommissioning expense payable	148,763	159,665	(149,432)	158,996	--
Pension obligation payable	21,049	9,588	--	30,637	--
Other post employment benefits	--	32,625	--	32,625	--
Other liabilities	604,043	64,778	(46,690)	622,131	47,938
Business-type activities total	4,444,036	1,230,030	(1,040,809)	4,633,257	236,542
Total liabilities (1)	$ 5,446,239	1,634,406	(1,304,337)	5,776,308	427,918

(1) This schedule excludes select short-term liabilities of $59,936 for governmental activities and $245,863 for business-type activities and capital appreciation bond interest payable of $225,615 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies, and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2008, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	2,810	162	(1)	5.75%	9/1/2009
Series 1996	October 1996	30,550	2,360	142	(1)	6.00%	9/1/2009
Assumed MUD Debt	December 1997	33,680	7,975	2,422	(3)(4)	4.40 - 10.50%	11/15/2007-2017
Series 1999	October 1999	51,100	3,035	159	(1)	5.25%	9/1/2009
Series 1999	October 1999	5,590	260	13	(1)	5.00%	9/1/2009
Series 2000	October 2000	52,930	1,900	221	(1)	4.63 - 6.00%	9/1/2009-2010
Series 2000	October 2000	6,060	830	85	(1)	5.00 - 5.25%	9/1/2009-2011
Series 2001	June 2001	123,445	26,870	5,901	(1)	4.75 - 5.50%	9/1/2009-2022
Series 2001	October 2001	79,650	15,860	2,018	(1)	4.00 - 5.25%	9/1/2009-2012
Series 2001	October 2001	2,650	225	4	(2)	3.88%	11/1/2008
Series 2001	October 2001	65,335	27,805	6,927	(1)	4.38 - 5.25%	9/1/2009-2021
Series 2002	July 2002	12,190	11,175	2,502	(1)	3.75 - 5.00%	3/1/2009-2017
Series 2002	July 2002	2,495	475	12	(1)	5.00%	3/1/2009
Series 2002	September 2002	99,615	70,600	25,847	(1)	3.25 - 5.00%	9/1/2009-2022
Series 2002	September 2002	8,690	2,130	72	(2)	3.15 - 3.40%	11/1/2008-2009
Series 2002	September 2002	34,095	20,325	6,587	(1)	3.25 - 5.38%	9/1/2009-2022
Series 2003	June 2003	62,585	21,620	2,824	(1)	5.00%	9/1/2009-2013
Series 2003	September 2003	68,855	61,720	26,061	(1)	3.75 - 5.00%	9/1/2009-2023
Series 2003A	September 2003	2,530	1,570	236	(1)	4.10 - 5.00%	9/1/2009-2013
Series 2003	September 2003	4,450	3,690	1,474	(1)	4.00 - 4.80%	9/1/2009-2023
Series 2003	September 2003	8,610	3,380	165	(2)	2.75 - 3.38%	11/1/2008-2010
Series 2004	September 2004	67,835	62,625	26,182	(1)	3.00 - 5.00%	9/1/2009-2024
Series 2004A	September 2004	2,430	1,795	324	(1)	4.00 - 4.75%	9/1/2009-2014
Series 2004	September 2004	25,000	20,315	9,487	(1)	3.00 - 5.00%	9/1/2009-2024
Series 2004	September 2004	21,830	12,065	791	(2)	2.60 - 3.35%	11/1/2008-2011
Series 2005	March 2005	145,345	145,345	52,362	(1)	5.00%	9/1/2010-2020
Series 2005	September 2005	19,535	17,640	8,254	(1)	4.00 - 5.00%	9/1/2009-2025
Series 2005	September 2005	7,185	6,515	2,753	(1)	3.50 - 6.50%	9/1/2009-2025
Series 2005	September 2005	14,940	9,925	889	(2)	3.00 - 3.75%	11/1/2008-2012
Series 2006	September 2006	31,585	31,585	19,447	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	22,655	10,529	(1)	4.00 - 5.00%	9/1/2009-2026
Series 2006	September 2006	14,120	11,515	1,460	(2)	4.00 - 4.25%	11/1/2008-2013
Series 2006	September 2006	12,000	12,000	5,729	(1)(5)	4.00 - 6.00%	9/1/2009-2026
Series 2007	October 2007	97,525	93,525	67,480	(1)	4.64%	9/1/2010-2027
Series 2007	October 2007	3,820	3,705	2,073	(1)	4.88%	9/1/2009-2027
Series 2007	October 2007	9,755	9,300	1,476	(2)	3.66%	11/1/2008-2017
Series 2008	March 2008	172,505	163,380	52,865	(1)	5.00%	9/1/2009-2021
			$ 910,505				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $7,214 and interest of $2,206.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

10 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities, continued

In October 2007, the City delivered $97,525,000 of Public Improvement Bonds, Series 2007. The proceeds from the issue will be used as follows: streets and signals ($62,000,000), parks and recreation ($8,675,000), affordable housing ($5,000,000), and public safety facilities ($21,850,000). These bonds will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at rates ranging from 4.64% to 4.80%, are $71,596,615.

In October 2007, the City delivered $3,820,000 of Certificates of Obligation, Series 2007. The proceeds from the issue will be used as follows: Circle C Metro Park ($2,500,000) and Compressed Natural Gas Facility ($1,320,000). These certificates of obligation will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at a rate of 4.88%, are $2,241,864.

In October 2007, the City delivered $9,755,000 of Public Property Finance Contractual Obligations, Series 2007. The proceeds from the issue will be used as follows: fire trucks ($4,035,000), public works transportation equipment ($1,500,000), water utility capital equipment ($2,173,000), and wastewater utility capital equipment ($2,047,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2008 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2008. Total interest requirements for these obligations, at a rate of 3.66%, are $1,680,905.

In March 2008, the City issued $172,505,000 of Public Improvement Refunding Bonds, Series 2008. The net proceeds of $188,363,353 (after issue costs, discounts and premiums) from the refunding were used to refund $180,895,000 of public improvement bonds, series 1998, 2000, 2001, and 2002 and certificates of obligation, series 1997, 1998, 1999, 2000, 2001, 2002, and 2004. The refunding resulted in future interest requirements to service the debt of $56,849,570 with interest rates ranging from 3.5% to 5%. An economic gain of $9,551,705 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $12,229,025. An accounting loss of $6,970,028, which will be deferred and amortized, was recognized on this refunding. A portion of the proceeds from this refunding were used to refund debt for the following enterprise funds: Electric, Water and Wastewater, Airport, Convention Center, Drainage and Solid Waste.

General obligation bonds authorized and unissued amounted to $544,810,000 at September 30, 2008. Bond ratings at September 30, 2008, were Aa1 (Moody's Investor Services, Inc.), AAA (Standard & Poor's), and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

Utility Debt -- The City has previously issued combined debt for the Electric and Water and Wastewater utilities. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of the Electric Fund and Water and Wastewater Fund.

The total combined utility systems revenue bond obligations at September 30, 2008, exclusive of discounts, premiums, and loss on refundings consists of $278,369,299 prior lien bonds and $245,614,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $535,614,355 at September 30, 2008. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2008, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA- and A+ (Standard & Poor's), and AA- and AA- (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	48,511	110,464 (1)	6.70 - 12.50%	11/15/2008-2011
1993 Refunding	February 1993	203,166	51,310	28,967 (1)	6.20 - 6.30%	11/15/2008-2014
1993A Refunding	June 1993	263,410	9,345	14,890 (1)	5.60 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996A Refunding	September 1996	198,260	22,520	858 (1)	5.00 - 5.13%	11/15/2008-2009
1998 Refunding	August 1998	180,000	86,005	15,286 (1)	6.63 -6.75%	11/15/2008-2012
1998 Refunding	November 1998	139,965	138,735	89,646 (1)	4.10 - 5.25%	05/15/2009-2025
1998A Refunding	November 1998	105,350	100,440	78,750 (1)	4.25 - 5.00%	05/15/2009-2028
1998B	November 1998	10,000	6,440	1,241 (1)	3.15 - 3.75%	11/15/2008-2017
			$ 523,984			

(1) Interest is paid semiannually on May 15 and November 15.

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2008, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2008, the Electric Fund had outstanding commercial paper notes of $28,597,000 and the Water and Wastewater Fund had $178,052,000 of commercial paper notes outstanding. Interest rates on the notes range from 1.45 % to 8%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2008, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

The taxable notes are issued in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2008, the Electric Fund had outstanding taxable notes of $6,585,000 (net of discount of $20,285), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 5.05% to 5.6%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Electric Fund.

Electric Utility Systems Revenue Debt -- Revenue Bond Refunding Issues – In March 2008, the City issued $50,000,000 of Electric Utility System Revenue Refunding Bonds, Taxable Series 2008. Proceeds from the bond refunding were used to refund $48,800,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds were $98,308,413, with interest rates ranging from 3.08% to 6.26%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In August 2008, the City issued $175,000,000 of Electric Utility System Revenue Refunding Bonds, Series 2008A. Proceeds from the bond refunding were used to refund $174,600,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds were $369,649,296, with interest rates ranging from 4% to 6%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2008, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	75,700	66,185 (1)	5.00 - 7.25%	11/15/2008-2030
2002 Refunding	March 2002	74,750	61,535	14,058 (1)	3.75 - 5.50%	11/15/2008-2014
2002A Refunding	August 2002	172,880	103,870	31,743 (1)	4.00 - 5.50%	11/15/2008-2016
2003 Refunding	March 2003	182,100	154,100	94,672 (1)	4.00 - 5.25%	11/15/2008-2028
2006 Refunding	June 2006	150,000	150,000	125,361 (1)	4.00 - 5.00%	11/15/2008-2035
2006A Refunding	November 2006	137,800	137,800	48,798 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	144,515	47,211 (1)	5.00%	11/15/2008-2020
2008 Refunding	March 2008	50,000	50,000	48,308 (1)	3.08 - 6.26%	11/15/2009-2032
2008A Refunding	August 2008	175,000	175,000	194,649 (1)	4.00 - 6.00%	11/15/2010-2038
			$ 1,052,520			

(1) Interest is paid semiannually on May 15 and November 15.

Electric Utility System Revenue Debt – Pledged Revenues - The net revenue of the Electric Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,260,817	858,317	402,500	143,200	281.1%

(1) Gross revenue includes revenues from operations and interest income.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue water and wastewater system revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Water and Wastewater Fund.

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues – In December 2007, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund $136,900,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $263,568,086, with interest rates ranging from 4% to 5.25%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In May 2008, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, in an aggregate principal amount of $170,605,000. Proceeds from the variable rate bond refunding were used to refund $158,805,000 of the City's outstanding combined utility system revenue refunding bonds, series 1997 and separate sub lien revenue refunding bonds, series 2001A and series 2001B issued for the water and wastewater system. During fiscal year 2008, interest rates on the bonds ranged from 1.30% to 2.35%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. In connection with the issuance of the variable rate bonds, the City entered into an interest rate management agreement with Goldman Sachs. Under terms of the agreement, the City receives a variable rate option equal to SIFMA Municipal Swap Index and pays a fixed rate of 3.6%. The City realized an economic gain of $12,028,799 on this transaction. The change in net cash flows that resulted was a decrease of $20,817,440. An accounting loss of $6,153,453, which was deferred and will be amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

Bond ratings at September 30, 2008, were Aa3 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	1,695	56	(1)	3.00 - 3.25%	11/15/2008-2009
2000 Refunding	June 2000	100,000	4,300	422	(1)	6.50%	11/15/2008-2010
2001A Refunding	June 2001	152,180	20,015	9,687	(1)	4.38 - 6.00%	11/15/2008-2031
2001B Refunding	June 2001	73,200	12,895	8,037	(1)	5.13 - 6.00%	11/15/2008-2031
2001C Refunding	December 2001	95,380	27,515	4,476	(1)	4.10 - 5.38%	11/15/2008-2015
2002A Refunding	August 2002	139,695	85,980	26,637	(1)	4.00 - 5.50%	11/15/2008-2016
2003 Refunding	March 2003	121,500	86,100	56,829	(1)	4.00 - 5.00%	11/15/2008-2028
2004 Refunding	August 2004	132,475	115,375	85,448	(2)	8.37%	05/15/2011-2024
2004A Refunding	October 2004	165,145	161,160	104,165	(1)	5.00%	11/15/2008-2029
2005 Refunding	November 2005	198,485	198,485	116,733	(1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	136,575	105,568	(1)	4.00 - 5.00%	11/15/2008-2035
2006 Refunding	August 2006	63,100	58,855	28,397	(1)	5.00%	11/15/2008-2025
2006A Refunding	December 2006	135,000	135,000	105,982	(1)	3.50 - 5.00%	11/15/2008-2036
2007 Refunding	March 2008	135,000	135,000	125,039	(1)	4.00-5.25%	11/15/2009-2037
2008 Refunding	May 2008	170,605	170,605	179,105	(2)	8.00%	11/15/2008-2031
			$ 1,349,555				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement calculated utilizing the rate in effect at the end of the fiscal year.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt – Pledged Revenues - The net revenue of the Water and Wastewater Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 367,444	154,215	213,229	143,635	148.5%

(1) Gross revenue includes revenues from operations and interest income.

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2008, the total airport system obligation for prior lien bonds is $333,765,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $146,293,789 at September 30, 2008. Revenue bonds authorized and unissued amount to $735,795,000.

Bond ratings at September 30, 2008, for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	52,465	19,653 (1)	4.00 - 5.25%	11/15/2008-2018
2008 Refunding	May 2008	281,300	281,300	126,641 (2)	7.51%	11/15/2008-2025
			$ 333,765			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement calculated utilizing the rate in effect at the end of the fiscal year.

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2008, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $11,060,171 including accrued interest, at September 30, 2008, and was restricted within the airport system. During fiscal year 2008, interest rates on the notes ranged from 1.26% to 3.95%, adjusted weekly at market rates, with the exception on one week when rates were 8.09%; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 5.89% on October 1, 2008 to .65% on March 4, 2009. Principal and interest on the notes are payable from the net revenues of the airport system.

In April 2008, the City's Airport Fund converted the Airport System Refunding Revenue Bonds, Series 2005 to variable rate demand bonds. These bonds separated into 4 subseries in the total principal amount $281,300,000. The proceeds of these bonds were used to refund outstanding bonds for debt service savings. The bonds have the following terms:

Variable Rate Demand Bonds

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Bonds	Expiration Date
2005-1	DEPFA	0.40%	Morgan Keegan	0.07%	$70,300,000	5/2/2011
2005-2	DEPFA	0.40%	Morgan Keegan	0.07%	$70,325,000	5/2/2011
2005-3	DEXIA	0.40%	Morgan Stanley	0.07%	$70,325,000	5/2/2011
2005-4	DEXIA	0.40%	Morgan Stanley	0.07%	$70,350,000	5/2/2011
					$281,300,000	

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in 12 equal, quarterly installments. Bank bonds bear an interest rate based on the bank rate which is the greater of the base rate or the maximum rate.

The bond rating at September 30, 2008, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Airport Revenue Debt – Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 108,983	52,993	55,990	31,194	179.5%

(1) Gross revenue includes revenues from operations, passenger facility charges and interest income.

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2008, the total convention center obligation for prior and subordinate lien bonds is $236,950,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $233,677,738 at September 30, 2008. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2008.

Bond ratings at September 30, 2008, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	22,600	16,079 (1)	5.00 - 5.50%	11/15/2008-2029
1999	November 1999	40,000	1,745	120 (1)	6.75%	11/15/2008-2009
2004 Refunding	February 2004	52,715	50,605	16,261 (1)	2.50 - 5.00%	11/15/2008-2019
2005 Refunding	May 2005	36,720	36,720	25,313 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	125,280	247,930 (2)	7.88%	11/15/2009-2033
			$ 236,950			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement calculated utilizing the rate in effect at the end of the fiscal year.

Convention Center Revenue Debt – Pledged Revenues - The net revenue of the Convention Center Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 59,951	31,472	28,479	15,487	183.9%

(1) Gross revenue includes revenues from operations, interest income and hotel-motel occupancy and vehicle rental taxes reported through transfers in.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements

Governmental Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2009	$ 45,289	33,556	6,405	3,234	5,603	1,130
2010	46,922	31,381	6,625	2,926	5,312	955
2011	47,407	29,192	6,982	2,617	4,528	783
2012	46,499	26,939	7,030	2,290	3,014	634
2013	49,726	24,736	2,728	1,967	1,370	546
2014-2018	229,954	90,381	15,595	7,768	5,065	2,064
2019-2023	166,189	39,167	19,044	4,128	3,785	1,145
2024-2028	79,135	10,129	7,504	678	2,734	248
	711,121	285,481	71,913	25,608	31,411	7,505
Less: Unamortized bond discounts	(1,253)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(14,327)	--	--	--	--	--
Add: Unamortized bond premiums	31,137	--	12	--	2	--
Net debt service requirements	726,678	285,481	71,925	25,608	31,413	7,505

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total
2009	166	12	57,463	37,932	95,395
2010	316	5	59,175	35,267	94,442
2011	--	--	58,917	32,592	91,509
2012	--	--	56,543	29,863	86,406
2013	--	--	53,824	27,249	81,073
2014-2018	--	--	250,614	100,213	350,827
2019-2023	--	--	189,018	44,440	233,458
2024-2028	--	--	89,373	11,055	100,428
	482	17	814,927	318,611	1,133,538
Less: Unamortized bond discounts	--	--	(1,253)	--	(1,253)
Unamortized gain(loss) on bond refundings	--	--	(14,327)	--	(14,327)
Add: Unamortized bond premiums	--	--	31,151	--	31,151
Net debt service requirements	$ 482	17	830,498	318,611	1,149,109

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2009	$ 14	57	146	11	35,182	927
2010	62	56	152	6	--	--
2011	73	53	79	1	--	--
2012	78	49	--	--	--	--
2013	125	45	--	--	--	--
2014-2018	616	131	--	--	--	--
2019-2023	168	13	--	--	--	--
	1,136	404	377	18	35,182	927
Less: Unamortized bond discount	(3)	--	--	--	(34)	--
Add: Unamortized bond premium	77	--	--	--	--	--
Net debt service requirements	1,210	404	377	18	35,148	927

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
2009	78,773	93,273	31	60	114,146	94,328	208,474
2010	65,824	99,276	32	58	66,070	99,396	165,466
2011	75,085	91,680	34	57	75,271	91,791	167,062
2012	75,773	85,434	36	55	75,887	85,538	161,425
2013	100,286	61,516	207	245	100,618	61,806	162,424
2014-2018	331,550	204,448	266	187	332,432	204,766	537,198
2019-2023	198,127	135,186	341	111	198,636	135,310	333,946
2024-2028	190,903	82,695	265	22	191,168	82,717	273,885
2029-2033	134,795	38,818	--	--	134,795	38,818	173,613
2034-2038	79,225	12,081	--	--	79,225	12,081	91,306
2039-2043	12,270	307	--	--	12,270	307	12,577
	1,342,611	904,714	1,212	795	1,380,518	906,858	2,287,376
Less: Unamortized bond discounts	(4,196)	--	--	--	(4,233)	--	(4,233)
Unamortized gain(loss) on bond refundings	(71,940)	--	--	--	(71,940)	--	(71,940)
Add: Unamortized bond premiums	41,667	--	--	--	41,744	--	41,744
Net debt service requirements	$ 1,308,142	904,714	1,212	795	1,346,089	906,858	2,252,947

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2009	$ 469	194	2,179	390	532	374
2010	594	169	2,118	316	564	348
2011	569	138	2,147	241	596	319
2012	533	107	1,928	162	627	288
2013	593	79	1,496	95	674	256
2014-2018	710	156	1,382	46	4,221	621
2019-2023	232	22	--	--	--	--
2024-2028	--	--	--	--	--	--
	3,700	865	11,250	1,250	7,214	2,206
Less: Unamortized bond discounts	(17)	--	--	--	(36)	--
Unamortized gain(loss) on bond refundings	(1,962)	--	--	--	--	--
Add: Unamortized bond premiums	344	--	29	--	--	--
Net debt service requirements	2,065	865	11,279	1,250	7,178	2,206

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2009	178,052	1,322	59,018	83,713	780	41
2010	--	--	54,413	90,867	915	15
2011	--	--	50,659	86,506	--	--
2012	--	--	57,990	83,267	--	--
2013	--	--	70,761	74,071	--	--
2014-2018	--	--	395,842	345,861	--	--
2019-2023	--	--	307,600	208,092	--	--
2024-2028	--	--	317,051	97,466	--	--
2029-2033	--	--	181,905	37,759	--	--
2034-2038	--	--	86,511	9,523	--	--
	178,052	1,322	1,581,750	1,117,125	1,695	56
Less: Unamortized bond discounts	--	--	(8,434)	--	(6)	--
Unamortized gain(loss) on bond refundings	--	--	(56,534)	--	(14)	--
Add: Unamortized bond premiums	--	--	42,087	--	8	--
Net debt service requirements	$ 178,052	1,322	1,558,869	1,117,125	1,683	56

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) Portions of these bonds are variable rate bonds with an assumed rate of 8% and 8.37%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Water and Wastewater Debt Service Requirements Principal	Total Water and Wastewater Debt Service Requirements Interest	Total Water and Wastewater Debt Service Requirements Total
2009	$ 4	53	241,034	97,436	338,470
2010	–	--	58,604	102,934	161,538
2011	–	--	53,971	98,111	152,082
2012	–	--	61,078	94,311	155,389
2013	–	--	73,524	84,513	158,037
2014-2018	–	--	402,155	383,777	785,932
2019-2023	–	--	307,832	237,423	545,255
2024-2028	–	--	317,051	114,578	431,629
2029-2033	–	--	181,905	41,552	223,457
2034-2038	–	--	86,511	9,523	96,034
	4	53	1,783,665	1,264,158	3,047,823
Less: Unamortized bond discounts	–	--	(8,493)	--	(8,493)
Unamortized gain(loss) on bond refundings	–	--	(58,510)	--	(58,510)
Add: Unamortized bond premiums	–	--	42,468	--	42,468
Net debt service requirements	$ 4	53	1,759,130	1,264,158	3,023,288

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest
2009	$ 16	15	--	1,106	12,325	18,265
2010	25	14	--	1,106	12,910	17,566
2011	28	13	--	1,106	13,515	16,833
2012	30	11	--	1,106	14,165	16,056
2013	39	10	--	1,106	14,795	15,364
2014-2018	120	26	28,000	4,975	87,745	62,719
2019-2023	33	2	--	--	107,085	34,074
2024-2028	--	--	--	--	71,225	5,049
	291	91	28,000	10,505	333,765	185,926
Less: Unamortized bond discounts	(1)	--	--	--	(1,049)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(16,589)	--
Add: Unamortized bond premiums	16	--	--	--	2,742	--
Net debt service requirements	307	91	28,000	10,505	318,869	185,926

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2009	466	48	12,807	19,434	32,241
2010	476	32	13,411	18,718	32,129
2011	493	14	14,036	17,966	32,002
2012	127	1	14,322	17,174	31,496
2013	--	--	14,834	16,480	31,314
2014-2018	--	--	115,865	67,720	183,585
2019-2023	--	--	107,118	34,076	141,194
2024-2028	--	--	71,225	5,049	76,274
	1,562	95	363,618	196,617	560,235
Less: Unamortized bond discounts	--	--	(1,050)	--	(1,050)
Unamortized gain(loss) on bond refundings	--	--	(16,588)	--	(16,588)
Add: Unamortized bond premiums	--	--	2,758	--	2,758
Net debt service requirements	$ 1,562	95	348,738	196,617	545,355

(1) These are variable rate notes with an assumed rate of 3.95%.

(2) Portions of these bonds are variable rate bonds with an assumed rate of 6.49% and 4.98%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2009	$ 1,496	1,024	2,095	1,590	3,852	612
2010	1,943	949	2,050	1,510	3,613	477
2011	2,058	851	2,143	1,433	3,351	353
2012	1,842	747	2,250	1,333	3,183	228
2013	2,017	654	1,707	1,227	2,345	113
2014-2018	8,699	1,934	8,695	4,802	1,159	30
2019-2023	2,349	215	13,416	2,341	--	--
2024-2028	--	--	1,831	85	--	--
	20,404	6,374	34,187	14,321	17,503	1,813
Less: Unamortized bond discounts	(80)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,328)	--	--	--	--	--
Add: Unamortized bond premiums	1,792	--	784	--	52	--
Net debt service requirements	20,788	6,374	34,971	14,321	17,555	1,813

Fiscal Year Ended September 30	Revenue Bonds (1) Principal	Revenue Bonds (1) Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Nonmajor Debt Service Requirements Principal	Total Nonmajor Debt Service Requirements Interest	Total Nonmajor Debt Service Requirements Total
2009	4,720	7,970	4	--	12,167	11,196	23,363
2010	8,215	11,060	--	--	15,821	13,996	29,817
2011	8,545	11,910	--	--	16,097	14,547	30,644
2012	9,450	11,774	--	--	16,725	14,082	30,807
2013	10,555	11,570	--	--	16,624	13,564	30,188
2014-2018	59,855	53,842	--	--	78,408	60,608	139,016
2019-2023	55,735	47,063	--	--	71,500	49,619	121,119
2024-2028	54,740	44,093	--	--	56,571	44,178	100,749
2029-2033	25,135	16,868	--	--	25,135	16,868	42,003
	236,950	216,150	4	--	309,048	238,658	547,706
Less: Unamortized bond discounts	(824)	--	--	--	(904)	--	(904)
Unamortized gain(loss) on bond refundings	(19,242)	--	--	--	(20,570)	--	(20,570)
Add: Unamortized bond premiums	4,133	--	--	--	6,761	--	6,761
Net debt service requirements	$ 221,017	216,150	4	--	294,335	238,658	532,993

(1) A portion of these bonds are variable rate bonds with an assumed rate of 7.88%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 1,995	1,290	2,095	1,590	6,177	1,013
2010	2,624	1,188	2,050	1,510	5,883	799
2011	2,728	1,055	2,143	1,433	5,577	595
2012	2,483	914	2,250	1,333	5,111	390
2013	2,774	788	1,707	1,227	3,841	208
2014-2018	10,145	2,247	8,695	4,802	2,541	76
2019-2023	2,782	252	13,416	2,341	--	--
2024-2028	--	--	1,831	85	--	--
	25,531	7,734	34,187	14,321	29,130	3,081
Less: Unamortized bond discounts	(101)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,289)	--	--	--	--	--
Add: Unamortized bond premiums	2,229	--	784	--	81	--
Net debt service requirements	24,370	7,734	34,971	14,321	29,211	3,081

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	532	374	213,234	2,249	--	1,106
2010	564	348	--	--	--	1,106
2011	596	319	--	--	--	1,106
2012	627	288	--	--	--	1,106
2013	674	256	--	--	--	1,106
2014-2018	4,221	621	--	--	28,000	4,975
	7,214	2,206	213,234	2,249	28,000	10,505
Less: Unamortized bond discounts	(36)	--	(34)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 7,178	2,206	213,200	2,249	28,000	10,505

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) These are variable rate notes with an assumed rate of 3.95%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	Revenue Bonds (3)		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 154,836	203,221	780	41	505	161
2010	141,362	218,769	915	15	508	90
2011	147,804	206,929	-	-	527	71
2012	157,378	196,531	--	--	163	56
2013	196,397	162,521	--	--	207	245
2014-2018	874,992	666,870	--	--	266	187
2019-2023	668,547	424,415	--	--	341	111
2024-2028	633,919	229,303	--	--	265	22
2029-2033	341,835	93,445	--	--	-	-
2034-2038	165,736	21,604	--	--	--	--
2039-2043	12,270	307	--	--	--	--
	3,495,076	2,423,915	1,695	56	2,782	943
Less: Unamortized bond discounts	(14,503)	--	(6)	--	--	--
Unamortized gain(loss) on bond refundings	(164,305)	--	(14)	--	--	--
Add: Unamortized bond premiums	90,629	--	8	--	--	--
Net debt service requirements	3,406,897	2,423,915	1,683	56	2,782	943

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2009	380,154	211,045	591,199
2010	153,906	223,825	377,731
2011	159,375	211,508	370,883
2012	168,012	200,618	368,630
2013	205,600	166,351	371,951
2014-2018	928,860	679,778	1,608,638
2019-2023	685,086	427,119	1,112,205
2024-2028	636,015	229,410	865,425
2029-2033	341,835	93,445	435,280
2034-2038	165,736	21,604	187,340
2039-2043	12,270	307	12,577
	3,836,849	2,465,010	6,301,859
Less: Unamortized bond discounts	(14,680)	--	(14,680)
Unamortized gain(loss) on bond refundings	(167,608)	--	(167,608)
Add: Unamortized bond premiums	93,731	--	93,731
Net debt service requirements	$ 3,748,292	2,465,010	6,213,302

(3) A portion of these bonds are variable rate bonds.

10 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Defeased Debt

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2008, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance 9/30/2008
General Obligation		
Contractual Obligations, Series 1999	9/1/2009	$ 3,505
Public Improvement Bonds, Series 1999	9/1/2009	46,955
Contractual Obligations, Series 2000	9/1/2010	3,580
Public Improvement Bonds, Series 2000	9/1/2010	48,745
Contractual Obligations, Series 2001	9/1/2011	13,685
Public Improvement Bonds, Series 2001	9/1/2011	51,280
Contractual Obligations, Series 2002	9/1/2012	6,750
Public Improvement Bonds, Series 2002	9/1/2012	13,100
Contractual Obligations, Series 2004	9/1/2014	1,355
Austin Energy		
Series 2001	11/15/2010	48,500
Series 2003	5/15/2013	18,800
Water and Wastewater		
Series 2000	5/15/2010	87,200
Series 2001A	5/15/2011	118,265
Series 2001B	5/15/2011	53,605
Series 2003	5/15/2013	29,100
Convention Center		
Series 1999	11/15/2009	35,140
		$ 579,565

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Subsequent to September 30, 1997, the City has issued $104.2 million in various series of housing revenue bonds that have an outstanding balance of $102.6 million as of September 30, 2008.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2008, $365.1 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $383 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2008, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount Current	Amount Long-Term
Governmental funds:			
Nonmajor governmental funds	Nonmajor governmental funds	$ 39,629	--
	Water and Wastewater	--	4,334
	Nonmajor enterprise funds	--	1,929
	Internal service funds	--	151
General Fund	Nonmajor governmental funds	227	--
Internal Service funds:			
Support Services	Nonmajor governmental funds	11	56
Business-type funds:			
Electric	Nonmajor enterprise funds	200	2,291
	Nonmajor governmental funds	--	73
Water and Wastewater (restricted)	Internal service funds	27	54
Airport (restricted)	Nonmajor governmental funds	--	124
Nonmajor enterprise funds	Nonmajor governmental funds	--	149
	Nonmajor enterprise funds	900	--
		$ 40,994	9,161

Interfund receivables and payables reflect loans between funds. Of the above current amount, $15.8 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $20.9 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2008 were as follows (in thousands):

	Transfers In			
Transfers Out	General Fund	Nonmajor Governmental	Nonmajor Proprietary	Total
General Fund	$ --	17,045	10,393	27,438
Nonmajor governmental funds	282	29,427	38,867	68,576
Electric	91,000	--	--	91,000
Water and Wastewater	24,629	3,971	--	28,600
Nonmajor proprietary funds	400	2,423	--	2,823
Internal service funds	--	4,450	--	4,450
Total transfers out	$ 116,311	57,316	49,260	222,887

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax funds to other nonmajor governmental funds and the Convention Center Fund.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2008. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of sulfur dioxide (SO2) and nitrogen oxide (NOx) by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 and 2. It is estimated that the project cost will be in the range of $225 million for Austin Energy's share. The design phase was completed in February of 2006. Procurement of equipment and phase II engineering and construction are currently underway. Project completion is scheduled for late 2010.

Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $134.1 million as of September 30, 2008. The increase in the pro-rata interest from 2007 is primarily due to the scrubbers. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2008, Austin Energy's investment in the STP was approximately $505 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

NRG South Texas LP has applied for an expansion at STP to include Units 3 and 4 at the STP site. While it is unknown whether this application for expansion will be approved, Austin Energy recommended and City Council resolved not to participate in the expansion as currently proposed.

14 – COMMITMENTS AND CONTINGENCIES, continued
c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. At September 30, 2008, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2008	
Estimated cost to decommission STP	$ 220,733,000	Latest site specific study in 2007 dollars
Decommissioning trust assets	141,927,545	Market value of assets as of 9/30/2008

Austin Energy and other STP participants have provided the required information to the NRC and have collected decommissioning funds through rates since 1989. Austin Energy established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2008, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established a Risk Management Program. This program was authorized by the Austin City Council and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

Austin Energy has entered into brokerage agreements with the following organizations to execute the exchange-traded instruments for Austin Energy's risk management activities:

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A-

The following information is provided regarding Austin Energy's outstanding financial hedge instruments as of September 30, 2008:

Fuel Derivative Transactions as of September 30, 2008

Type of Transaction	Maturity Dates	Volumes in MMBTU		Fair Market Value Gain/ (Loss)
OTC Call Options	Nov 2008 - Aug 2013	17,150,000	*	$ 26,512,699
OTC Put Options	Nov 2008 - Aug 2013	22,685,000	*	7,243,350
Futures	Dec 2008 - Oct 2013	1,382,500	*	(2,274,683)
OTC Swaps	Nov 2008 - Oct 2012	44,395,000	*	35,504,360
Basis Swaps	Nov 2008 - Dec 2011	16,337,500		(2,732,931)
OTC Swaptions	April 2011 - Dec 2011	3,210,000		(910,865)
				$ 63,341,930

*Volumes are presented net of long and short positions

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. Premiums paid for options are deferred until the contract is executed. As of September 30, 2008, $45,374,363 was deferred. As of September 30, 2008, Austin Energy's futures, options, swaptions, and swaps, valued at mark-to-market, net to a gain of $63,341,930.

14 – COMMITMENTS AND CONTINGENCIES, continued
d -- Energy Risk Management Program, continued

The fair value of futures, swaps, and basis swap contracts is determined using the New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established.

Futures contracts represent a firm obligation to buy, or sell, the underlying asset. If held to expiration, the contract holder must take delivery, or deliver, the underlying asset at the established contract price.

The options and future contracts traded on New York Mercantile Exchange expose Austin Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or the exchange, the operations of Austin Energy will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by the New York Mercantile Exchange of which these brokerage houses are members. Termination risk for exchange traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission.

The fair value of the options are calculated using the Black/Scholes valuation method where the inputs are implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity and the NYMEX closing settlement price of the underlier as of the last day of the reporting period.

The over-the-counter agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating, minimum of A- by S&P. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts.

e -- Purchased Power

Austin Energy has commitments totaling $3.3 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2027, landfill power through 2020, biomass through 2027, and capacity and other power through 2010.

f -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds"). The variable rate bonds were issued to advance refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

In connection with the issuance of $170,605,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Series 2008 Bonds.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2008, are included below. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued with an initial principal amount of $132,475,000. The Series 2008 Bonds were issued with an initial principal amount of $170,605,000. The swaps were structured to match the likely principal amortization structures and dates of the Series 2004 Bonds and Series 2008 Bonds, respectively. The counterparties to the swaps are JPMorgan Chase Bank (JPM) and Goldman Sachs Capital Markets, L.P. (GSCM). The table below contains a summary of the terms and fair value of the swaps.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Revenue Refunding Bonds, Series 2004	May 15, 2024	JPM	Aaa/AA/AA-	68% of 1-month LIBOR	3.657%	$ (5,913,047)
Water & Wastewater Revenue Refunding Bonds, Series 2008	May 15, 2031	GSCM	Aa3/AA-/AA-	SIFMA Swap Index	3.600%	1,351,849

The combination of variable rate bonds and floating-to-fixed swaps creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates.

Fair value. The swap with JPM had a negative fair value as of September 30, 2008 of $5,913,047. The swap with GSCM had a positive fair value as of September 30, 2008 of $1,351,849. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on its outstanding swap with JPM because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of JPM are Aaa/AA/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement with JPM contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

As of September 30, 2008, the City was exposed to credit risk in the amount of the swap's fair value on its outstanding swap with GSCM because the swap had a positive fair value. However, should interest rates change and the fair value of the swap become negative, the City would not be exposed to credit risk. If interest rates rise and the fair value of the swap were to remain positive, the City would be exposed to credit risk in the amount of the swap's fair value. The current credit ratings of GSCM are Aa3/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement with GSCM contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears basis risk on its swap with JPM. The Swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City does not bear basis risk on its swap with GSCM*.*

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

The City does not bear tax risk on its swap with GSCM.

Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the JPM swap to further reduce the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Net Interest
2009	$ 1,135	11,881	(1,554)	10,327
2010	2,595	11,823	(1,581)	10,242
2011	6,965	11,668	(1,636)	10,032
2012	13,285	11,241	(1,585)	9,656
2013	12,905	10,648	(1,465)	9,183
2014-2018	111,550	35,926	(3,139)	32,787
2019-2023	58,000	20,498	1,491	21,989
2024-2028	65,565	7,900	3,349	11,249
2029-2031	13,980	1,684	781	2,465
Total	$ 285,980	123,269	(5,339)	117,930

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Series 2005 Airport System Subordinate Lien Revenue Refunding Bonds (the "Series 2005 Bonds"). The variable rate bonds were issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2008, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued in August 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	A1/A+/AA-	71% of 1-month LIBOR	4.051%	$(20,137,968)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates.

Fair value. The swap had a negative fair value as of September 30, 2008 of $20,137,968. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of Morgan Stanley are A1/A+/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears basis risk on its swap. The Swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Termination risk. The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance to further reduce the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Net Interest
2009	$ 10,475	15,657	(4,597)	11,060
2010	10,975	15,034	(4,415)	10,619
2011	11,500	14,380	(4,222)	10,158
2012	12,050	13,696	(4,022)	9,674
2013	6,125	13,274	(3,898)	9,376
2014-2018	54,075	54,326	(15,357)	38,969
2019-2023	104,875	34,517	(10,490)	24,027
2024-2025	71,225	5,391	(1,824)	3,567
Total	$ 281,300	166,275	(48,825)	117,450

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

Swaps for the Hotel Occupancy Tax

Objective of the swap. In connection with the issuance of $125,280,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 (the "Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Bonds.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2008, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The swap was structured to match the likely principal amortization structure and dates of the Bonds. The counterparty to the swap is Morgan Keegan Financial Products (MKFP).

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Nov 15, 2029	MKFP	Aa3/AA-/AA-	SIFMA to 11/15/09; 67% of 1-Mo USD-LIBOR thereafter	3.2505%	$(2,481,198)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Fair value. The swap had a negative fair value as of September 30, 2008 of $2,481,198. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on the swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of MKFP are Aa3/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement. The credit support provider of MKFP is Deutsche Bank AG, New York Branch ("DBAG"). The swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City bears tax risk only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Convention Center Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Net Interest
2009	$ --	2,662	1,410	4,072
2010	3,325	5,928	1,379	7,307
2011	4,425	6,938	1,331	8,269
2012	4,570	6,987	1,280	8,267
2013	4,720	7,037	1,227	8,264
2013-2017	25,915	35,888	5,283	41,171
2018-2022	30,360	37,320	3,686	41,006
2023-2027	35,800	39,218	1,810	41,028
2028-2030	16,165	16,397	123	16,520
Total	$ 125,280	158,375	17,529	175,904

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2008, was $29 thousand for governmental activities. There is no estimated amount payable for business-type activities.

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2008 Capital Budget includes new appropriations of $831.7 million for the City's enterprise funds and $142.3 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

14 – COMMITMENTS AND CONTINGENCIES, continued
i -- Capital Improvement Plan, continued

The key projects in progress include improvements to and development of the transportation infrastructure, electric system, water and wastewater systems, solid waste services, parks system, and urban growth management activities as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 59,746	99,284
Public safety	9,579	35,266
Transportation	203,550	109,695
Public health	4,300	75,519
Public recreation and culture	165,331	213,932
Urban growth management	86,216	53,467
Business-type activities:		
Electric	3,748,267	470,316
Water	1,011,429	1,065,886
Wastewater	1,046,809	534,839
Airport	140,700	560,400
Convention	30,917	27,490
Environmental and health services	81,062	110,917
Urban growth management	246,472	258,242
Total	$ 6,834,378	3,615,253

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $15.7 million reported as accrued landfill closure and postclosure costs at September 30, 2008, represents the cumulative amount reported to date based on the use of 99% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $153 thousand as the remaining estimated capacity is filled over the next year. Closure is estimated to be September 2009. The total estimated costs of $15.8 million include costs of closure of $7.9 million to be spent in the first year of closure and postclosure costs over the subsequent thirty years of $7.9 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 46% of retirees use the HMO option; approximately 70% of city employees and 54% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2008, 2007, and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $26.4 to $41.8 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2008	2007	2008	2007	2008	2007
Liability balances, beginning of year	$ 4,382	4,382	5,646	6,862	12,193	9,965
Claims and changes in estimates	4,658	4,024	3,727	882	5,303	4,899
Claim payments	(4,244)	(4,024)	(1,525)	(2,098)	(3,678)	(2,671)
Liability balances, end of year	$ 4,796	4,382	7,848	5,646	13,818	12,193

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.9 million discounted at 5.40% in 2008 and $2.8 million discounted at 4.63% in 2007.

14 – COMMITMENTS AND CONTINGENCIES, continued

l -- Decommissioning and Environmental Remediation Contingencies

Austin Energy may incur costs for decommissioning and environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $21 million at September 30, 2008. This amount includes the cost to decommission Holly as well as the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2009 and future years.

The EPA issued an administrative order to Austin Water on April 29, 1999, which requires the utility to perform a series of activities designed to result in an improved wastewater collection system free from sanitary sewer overflows. These activities include Infiltration/Inflow studies, sanitary sewer evaluation studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by June 30, 2009. Construction costs are estimated to be $400 million, and Austin Water is on schedule to comply with the administrative order.

Austin Water closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is $4.8 million. The financial statements include a liability of approximately $6.3 million at September 30, 2008. Plant decommissioning is estimated to be completed in July 2010.

The Airport Fund may also incur costs for environmental remediation of certain sites and has recorded an estimated liability of $105,000 as of September 30, 2008.

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 709 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold, and construction has been completed on a new children's hospital, the first phase of a regional retail shopping center, several office buildings, a visitor center, and a number of single family homes. Streets, greenways, and other infrastructure in the northwest quadrant of the property have also been constructed, and work is progressing on a major feature of the development, a lake park. With the signing of a 99-year ground lease with the University of Texas in October 2006, the project will also become home to the Dell Pediatric Research Institute. Construction of the first building associated with this institute has begun. The facility is scheduled to open in 2009.

In August 2005, the developer filed a site plan for the regional retail portion of the property. This action triggered a requirement that the City or the Mueller Local Government Corporation (MLGC), created by the City for this development, issue debt to be supported by the estimated sales tax revenue generated from the retail property. Debt was issued in the amount of $12 million by the MLGC in September 2006. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2008, was $21.3 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance equipment for both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

14 – COMMITMENTS AND CONTINGENCIES, continued
n -- Other Commitments and Contingencies, continued

The following summarizes capital assets recorded at September 30, 2008, under capital lease obligations (in thousands):

		Business-type Activities		
Capital Assets	**Governmental Activities**	**Electric**	**Airport**	**Total**
Building and improvements	$ --	1,405	--	1,405
Equipment	1,013	--	2,320	2,320
Accumulated depreciation	(738)	(211)	(825)	(1,036)
Net capital assets	$ 275	1,194	1,495	2,689

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse and unmarried children dependent on the retiree for support. The children covered include children under age 25 that are: natural children; stepchildren; legally adopted children; children for whom the retiree has obtained court-ordered guardianship/conservatorship; qualified children placed pending adoption; grandchildren if claimed as a dependent on the retiree's or retiree spouse's federal income tax return; and eligible disabled children beyond 25 years of age, if covered prior to age 25. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee.

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees or their dependents. Allocation of city funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget approval process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection, and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	10%
5 to 9 years	24% - 25%	15%
10 to 14 years	41% - 42%	25%
15 to 20 years	57% - 58%	35%
Greater than 20 years	81% - 83%	50%

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing these benefits for 2,956 retirees was $21.0 million in 2008 and $16.9 million in 2007 for 2,800 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

In fiscal year 2008, the City implemented GASB Statement No. 45 and recognized the following liability in the financial statements at September 30, 2008.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2008, is as follows (in thousands):

	OPEB
Annual required contribution	$ 108,574
Interest on net OPEB obligation	--
Adjustment to annual required contribution	--
Annual OPEB cost	108,574
Contributions made	(21,067)
Change in net OPEB obligation	87,507
Beginning net OPEB obligation	--
Net OPEB obligation	$ 87,507

Schedule of Funding Progress (in thousands):

Year Ended September 30	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2008	$ --	1,035,766	1,035,766	0.0%	417,451	248.1%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2006
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percent Open
Remaining Amortization Period	30 years
Assumed Rate of Return on Investments	4.0%
Health Care Cost Trend Rate	10% in 2007, decreasing 1% per year for five years to an ultimate trend of 5% in 2012

16 – SUBSEQUENT EVENTS
a -- General Obligation Bonds Issues

In October 2008, the City delivered $76,045,000 of Public Improvement Bonds, Series 2008. The proceeds from the issue will be used as follows: streets and signals ($56,200,000), parks and recreation ($11,345,000), and affordable housing ($8,500,000). These bonds will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3.50% to 5.00%, are $46,511,759.

16 – SUBSEQUENT EVENTS, continued
a -- General Obligation Bonds Issues, continued

In October 2008, the City delivered $10,700,000 of Certificates of Obligation, Series 2008. The proceeds from the issue will be used as follows: Avery Ranch Fire Station ($4,500,000) and Barton Springs Pool ($6,200,000). These certificates of obligation will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3.00% to 5.00%, are $5,849,868.

In October 2008, the City delivered $26,715,000 of Public Property Finance Contractual Obligations, Series 2008. The proceeds from the issue will be used as follows: public works transportation equipment ($3,288,000), water utility capital equipment ($1,814,000), wastewater utility capital equipment ($1,503,000), communications and technology management capital equipment ($2,700,000), golf carts ($440,000), and solid waste services capital equipment ($16,970,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2009 to 2015. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2009. Total interest requirements for these obligations, at rates ranging from 3.00% to 4.00%, are $3,737,119.

b -- Water and Wastewater System Revenue Bond Refunding Issue

In February 2009, the City issued $175,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009. Proceeds from the bond refunding were used to refund $172,610,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $288,070,693, with interest rates ranging from 3% to 5.125%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

(In thousands)

	2008					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 347,961	--	347,961	356,150	356,150	(8,189)
Franchise fees	35,577	--	35,577	32,189	32,189	3,388
Fines, forfeitures and penalties	18,946	--	18,946	17,452	17,452	1,494
Licenses, permits and inspections	24,268	7	24,275	24,431	24,431	(156)
Charges for services/goods	29,175	(12)	29,163	28,710	29,060	103
Interest and other	12,639	(1,097)	11,542	12,602	12,602	(1,060)
Total revenues	468,566	(1,102)	467,464	471,534	471,884	(4,420)
EXPENDITURES						
General government						
Municipal Court	11,592	(85)	11,507	11,745	11,757	250
Public safety						
Police	219,952	(2,721)	217,231	220,241	220,487	3,256
Fire	115,663	(858)	114,805	117,014	117,026	2,221
Emergency Medical Services	42,657	(295)	42,362	43,542	43,560	1,198
Public Safety & Emergency Mgmt	5,809	--	5,809	5,970	5,970	161
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	340	--	340	325	325	(15)
Public health:						
Health	34,823	119	34,942	36,128	36,290	1,348
Public recreation and culture						
Parks and Recreation	34,977	(417)	34,560	36,429	36,509	1,949
Austin Public Library	23,942	(75)	23,867	23,973	23,989	122
Urban growth management						
Neighborhood Planning and Zoning	5,017	(103)	4,914	5,386	5,392	478
Development Services and Watershed Protection	15,675	43	15,718	16,119	16,544	826
General city responsibilities (4)	65,112	(53,648)	11,464	12,193	11,567	103
Total expenditures	575,559	(58,040)	517,519	529,065	529,416	11,897
Excess (deficiency) of revenues over expenditures	(106,993)	56,938	(50,055)	(57,531)	(57,532)	7,477
OTHER FINANCING SOURCES (USES)						
Transfers in	116,311	6,201	122,512	121,480	121,480	1,032
Transfers out	(27,438)	(58,519)	(85,957)	(82,227)	(82,227)	(3,730)
Total other financing sources (uses)	88,873	(52,318)	36,555	39,253	39,253	(2,698)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(18,120)	4,620	(13,500)	(18,278)	(18,279)	4,779
Fund balance at beginning of year	106,810	(12,145)	94,665	78,681	75,728	18,937
Fund balance at end of year	$ 88,690	(7,525)	81,165	60,403	57,449	23,716

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($255,000), accrued payroll ($2,528,000), expenditures for workers' compensation ($2,211,703), liability reserve ($1,440,000), and public safety ($2,472,208).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

		General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$	(18,120)
Adjustments - increases (decreases) due to:		
Net compensated absences accrual		156
Outstanding encumbrances established in current year		(2,892)
Payments against prior year encumbrances		3,091
Transfer to Airport Fund		(700)
Transfer from Budget Stabilization reserve		5,000
Other		(35)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$	(13,500)

c -- Budget Amendments

The original budget of the General Fund was amended during fiscal year 2008 primarily for increased public safety and urban growth management costs. The original and final budget is presented in the accompanying financial statements.

2 – RETIREMENT PLANS-TREND INFORMATION

Information pertaining to the latest actuarial valuation for each plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
2005	$ 1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
2006	1,497,800	1,974,000	476,200	75.9%	391,000	121.8%
2007	1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
Police Officers						
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
2007	482,303	637,560	155,257	75.6%	111,809	138.9%
Fire Fighters (2)						
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 8.

3 – OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

The City implemented GASB Statement No 45 in fiscal year 2008. Under this statement, the City is required to have an actuarial valuation of its other post employment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
October 1, 2006	$ --	1,035,766	1,035,766	0.0%	417,451	248.1%

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF AGRICULTURE —							
Pass through							
State Health Services:							
WIC-Lactation CTR Project 07	10.557	2007-020827	6000	$ 275,132	$ 16,080	$ -	$ 16,080
WIC-Lactation CTR Project 08	10.557	2008-023186	6000	289,498	287,795		287,795
Women/Infants/Children	10.557	2007-020905	6000	4,166,000	204,819		204,819
Women/Infants/Children	10.557	N/A	6000	4,166,000	4,106,747		4,106,747
Total U.S. Department of Agriculture				8,896,630	4,615,441	-	4,615,441
U.S. HOUSING/URBAN DEVELOPMENT:							
Emergency Shelter Grant 05-07	14.231	S-06-MC-480500	6130	326,062		30,715	30,715
Emergency Shelter Grant 06-08	14.231	S-07-MC-48-0500	6130	329,116	69,025	228,067	297,092
				655,178	69,025	258,782	327,807
Home Grant	14.239	M-06-MC-48-0500	6130	4,358,773	224,845	5,309,597	5,534,442
Home Grant	14.239	M-07-MC-48-0500	6130	4,327,459	147,808	1,570,923	1,718,731
				8,686,232	372,653	6,880,520	7,253,173
Housing Opportunity People W/Aids II 07	14.241	TXH06-F004	6130	940,000		275,369	275,369
Housing Opportunity People W/Aids II 08	14.241	TXH07-F004	6130	947,000	26,814	674,045	700,859
				1,887,000	26,814	949,414	976,228
Economic Development Initiative (11th & 12th St)	14.246	B-03-SP-TX-0751	6130	89,415		5,000	5,000
Economic Development Initiative 05	14.246	B-04-SP-TX-0792	6130	198,820	10,686		10,686
Economic Development Initiative 07	14.246	B-05-SP-TX-0299	6130	198,400		5,100	5,100
				486,635	10,686	10,100	20,786

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. HOUSING/URBAN DEVELOPMENT:							
Section 108 Ncmp	14.248	N/A	6130	$ 2,000,000	$ 55,000	$ 365,169	$ 420,169
Section 108 Loan--E. 11th/12th	14.248	B-94-MC-48-0500-A	6130	9,035,000	920		920
				11,035,000	55,920	365,169	421,089
Fair Housing Assistance	14.401	FF206K076006	6130	339,240	347,740		347,740
Lead Hazard Reduction	14.900	TXLHD0161-06	6130	3,761,662	811,504		811,504
Total U.S. Housing/Urban Development				26,850,947	1,694,342	8,463,985	10,158,327
U.S. DEPARTMENT OF INTERIOR —							
Pass through							
Texas Parks & Wildlife							
USFWS Section 6	15.608	2-13-2370	6930	24,763	15,447		15,447
Total U.S. Department of Interior				24,763	15,447	-	15,447
U.S. DEPARTMENT OF JUSTICE:							
Aviation Asset Forfeiture	16.000	N/A	7580		35,036		35,036
Police Federal Seized Funds	16.000	N/A	7870		82,113		82,113
Police Seized Money Fund	16.000	N/A	7740		28,368		28,368
					145,517	-	145,517
VAWGO/Protection Orders	16.524	WF-07-V30-13410-10	6060	689,466	75,708		75,708
VAWGO/Protection Orders	16.524	2004-WE-AX-39	6060	750,000	326,807		326,807
				1,439,466	402,515	-	402,515
AUS-TC Outreach to Underserved	16.575	2005VFGXK022	6060	75,000	105		105

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF JUSTICE:							
Pass through							
Texas Governor's Office Criminal Justice Division:							
Assist Females Vic Domestic Violence	16.525	N/A	6500	$ 77,500	$ 14,532	$ -	$ 14,532
VAWA-Assistance for Females	16.588	WF-07-V30-13410-10	6500	69,703	52,032		52,032
Anti Human Trafficking	16.582	2005-VT-BX-17	6060	450,000	192,248		192,248
Pass through							
Office of the Attorney General:							
Project Safe Neighborhoods	16.592	2004-GP-CX-0572	6060	9,500	5,816		5,816
Project Safe Neighborhoods	16.592	04-05552	6060	550,931	5,975		5,975
				560,431	11,791	-	11,791
Weed & Seed Central/East	16.595	N/A	6060	175,000	594		594
Weed & Seed Central/East	16.595	2007-WS-Q7-0035	6060	200,000	162,872		162,872
				375,000	163,466	-	163,466
Violent Crime Initiative	16.580	2007-DD-BX-0625	6060	990,000	182,118		182,118
COPS Tech 06:Simulator	16.710	2006CKWX0248	6060	98,723	9,819		9,819
Aus-Trav Operability Radio	16.710	2005INWX0020	6060	6,000,000	1,837,243		1,837,243
Universal Hiring	16.710	N/A	6060	4,350,000	404,263		404,263
				10,448,723	2,251,325	-	2,251,325
Passed through							
Texas Alcohol and Beverage Commission —							
Enforcing Underage Drinking Laws 08	16.727	N/A	6060	45,000	40,000		40,000
				45,000	40,000	-	40,000

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF JUSTICE:							
Justice Assistance Program	16.738	2007-DJ-BX-0395	6060	$ 407,691	$ 136,259	$ -	$ 136,259
Justice Assistance Program 06-07	16.738	2006-DJ-BX-0247	6060	243,229	32,078		32,078
				650,920	168,337	-	168,337
DNA Capacity Enhancement Program	16.741	2006DNBXK143	6060	145,710	94,833		94,833
				145,710	94,833	-	94,833
Coverdell Forensic Science	16.742	2006-DN-BX-0022	6060	94,100	25,052		25,052
Coverdell Forensic Science	16.742	DN-07-A10-17487-04	6060	93,000	93,000		93,000
Coverdell Forensic Science	16.742	2007-CD-BX-0009	6060	95,000	61,570		61,570
				282,100	179,622	-	179,622
Pass through							
Texas Governor’s Office							
Criminal Justice Division —							
Coverdell Forensics Training	16.742	DN-06-A10-17487-03	6060	93,000	11,845		11,845
DNA Backlog Reduction Program	16.743	2005DNBXK118	6060	99,992	33,606		33,606
DNA Backlog Reduction Program	16.743	2007-DN-BX-K107	6060	165,405	34,950		34,950
				265,397	68,556	-	68,556
Gang Prevention Coordination Assistance	16.744	2007-JV-FX-0334	6060	200,000	36,189		36,189
Gang Prevention Project	16.744	ED-07-J20-19248-01	6060	32,790	12,405		12,405
				232,790	48,594	-	48,594

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF JUSTICE:							
Sorna Implementation	16.750	2008-DD-BX-0049	6060	$ 297,000	$ 25,184	$ -	$ 25,184
Total U.S. Department of Justice				16,497,740	4,052,620	-	4,052,620
U.S. DEPARTMENT OF TRANSPORTATION:							
Capital Improvements Bergstrom 0359-35	20.106	3-48-0359-35-06	6900	3,500,000	2,938,342		2,938,342
Capital Improvements Bergstrom 0359-36	20.106	3-48-0359-36-06	6900	2,812,500	1,638,413		1,638,413
ABIA FAA 37-07 (Noise Compatibility Progr.)	20.106	3-48-0359-037-2007	6900	5,000,000	3,355,149		3,355,149
ABIA FAA 38-07 (Security System Upgrade)	20.106	3-48-0359-038-2007	6900	6,616,988	1,236,539		1,236,539
ABIA FAA 39-07 (Safety Management System)	20.106	3-48-0359-039-2007	6900	200,000	106,647		106,647
ABIA FAA 41-08 (Airfield Lighting)	20.106	3-48-0359-041-2008	6900	1,642,661	626,696		626,696
ABIA FAA 40-08 (Noise Implementation)	20.106	3-48-0359-040-2008	6900	4,000,000	1,955		1,955
ABIA FAA 42-08 AIP	20.106	3-48-0359-042-2008	6900	1,250,000	10,050		10,050
ABIA FAA 43-08 AIP	20.106	3-48-0359-043-2008	6900	1,250,000	10,050		10,050
ABIA FAA 47-08 (Airport Development)	20.106	3-48-0359-047-2008	6900	628,366	151,080		151,080
				26,900,515	10,074,921	-	10,074,921
MCSAP — Corridor Enforcement	20.218	27XX48MH08 AUST15780	6090	512,138	8,837		8,837
Total U.S. Department of Transportation				27,412,653	10,083,758		10,083,758
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION:							
Equal Employment Opportunity	30.002	7FPSLP0105	6020	117,100	55,250		55,250
Equal Employment Opportunity	30.002	4FPSLP0175	6020	171,400	58,700		58,700
Total Equal Employment Opportunity				288,500	113,950	-	113,950

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES:							
Pass through							
National Endowment for the Arts —							
Original TX Indians Lecture Series & Conf.	45.168	2008-3516	6140	$ 7,986	$ 783	$ -	$ 783
Pass through							
Texas State Library:							
Interlibrary Loan	45.310	N/A	6140	420,877	30,460		30,460
Interlibrary Loan	45.310	771-08008	6140	424,320	396,247		396,247
				845,197	426,707	-	426,707
Total U.S. National Foundation on the Arts and Humanities				853,183	427,490		427,490
U.S. ENVIRONMENTAL PROTECTION AGENCY:							
Pass through							
TCEQ —							
Avoid Weed & Feed	66.460	582-8-77054	6930	201,600	1,856		1,856
Brownfield Cleanup Revolving Loan	66.811	N/A	6930	245,431	164,367		164,367
Brownfield Storage Tank Assessment	66.818	BF-96600601-1	6930	200,000	84,200		84,200
				445,431	248,567	-	248,567
Total U.S. Environmental Protection Agency				647,031	250,423	-	250,423
U.S. DEPARTMENT OF ENERGY:							
Solar City Partnership	81.117	DE-FC36-07G017069	6920	186,930	13,893		13,893
Pass through							
State Energy Conservation Office:							
Central TX Clean Cities	81.041	CM724	6920	15,000	10,992		10,992
Central TX Clean Cities	81.041	41817M3958	6920	22,500	12,297		12,297

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF ENERGY:							
Pass through							
State Energy Conservation Office:							
Energy Star Cool Savings	81.041	582-8-89282	6920	$ 60,000	$ 25,348	$ -	$ 25,348
Energy Star Appliance Replacement/Recycle	81.041	CM726	6920	94,636	94,636		94,636
				192,136	143,273	-	143,273
Total U.S. Department of Energy				379,066	157,166	-	157,166
U.S. HEALTH & HUMAN SERVICES:							
Title V CHS Population	93.110	2006-020402-001	6510	439,168	13,774		13,774
Title V CHS Population	93.110	N/A	6115	361,072	3,505		3,505
Title V CHS Population	93.110	2008-022993-01	6510	439,168	432,312		432,312
				1,239,408	449,591	-	449,591
Pass through							
State Health Services —							
TB Outreach	93.116	N/A	6110	154,203	150,556		150,556
New Start CHC 330(E)	93.224	H80CS00854	6110	4,003,387	1,796,644		1,796,644
New Start CHC 330(E)	93.224	H80CS00854-05-01	6110	3,952,838	1,681,720		1,681,720
				7,956,225	3,478,363	-	3,478,364
Pass through							
State Health Services:							
Childhood Lead Poisoning Prevention	93.262	7460000858D2007	6110	38,000	6,561		6,561
Immunization Outreach 07	93.268	N/A	6110	683,460	7,124		7,124
Immunization Outreach 09	93.268	N/A	6110	694,345	22,038		22,038
Immunization Outreach 08	93.268	N/A	6110	674,626	687,030		687,030
				2,052,431	716,192	-	716,192

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. HEALTH & HUMAN SERVICES:							
Steps To Healthier US — 06	93.283	N/A	6110	$ 1,918,007	$ 2,837	$ -	$ 2,837
Steps To Healthier US — 07	93.283	'U58/CCU623332-04-01	6110	1,810,267	129,830	404,154	533,984
Steps To Healthier US — 08	93.283	5U58DP623332-05	6110	1,710,268	615,295	589,581	1,204,876
Pass through							
State Health Services:							
Preparedness for Bioterrorism	93.283	2008-022923-001	6110	2,775,044	118,626		118,626
Preparedness for Bioterrorism	93.283	2008-027969	6112	673,194	65,578		65,578
Preparedness for Bioterrorism	93.283	74600008582006	6110	1,486,420	826,983	15,000	841,983
				10,373,200	1,759,149	1,008,735	2,767,884
Pass through							
Texas Dept of Family & Protective Services:							
Youth of Promise Initiative 07	93.556	23362199	6110	507,000	5,582	64,432	70,014
Youth of Promise Initiative 09	93.556	N/A	6113	500,000	8,843		8,843
Youth of Promise Initiative 08	93.556	23362199-FY08-AM03	6110	507,000	229,796	241,522	471,318
				1,514,000	244,221	305,954	550,175
Pass through							
State Health Services:							
Refugee Health Services 07	93.566	7460000858 2007	6110	227,528	11,365		11,365
Refugee Health Services 08	93.566	N/A	6110	445,780	336,776		336,776
				673,308	348,141	-	348,141
Pass through							
Texas Department of Housing and Community Affairs:							
Community Services Block Grant 06	93.569	N/A	6110	805,977	139,279		139,279
Community Services Block Grant 07	93.569	N/A	6110	804,132	126,092		126,092
Community Services Block Grant 08	93.569	N/A	6110	803,132	538,824		538,824
				2,413,241	804,195	-	804,195

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. HEALTH & HUMAN SERVICES:							
HRSA 04	93.887	C76HF00909-01-0	6622	$ 491,782	$ 15,751	$ -	$ 15,751
Ryan White I Emergency Care	93.914	N/A	6110	3,857,028	1,173,919	782,896	1,956,815
Ryan White I Emergency Care	93.914	N/A	6110	3,719,076	1,267,356	500,735	1,768,091
Ryan White Part A — MAI	93.914	N/A	6111	230,000	34		34
Ryan White Part A — MAI	93.914	H3MHA08484	6110	229,065	33,163	176,441	209,604
				8,035,169	2,474,472	1,460,072	3,934,544
Pass through							
Brazos Valley Council of Governments:							
Ryan White Title II Consort 09	93.917	5576-558-01	6110	724,455	252,595		252,595
Ryan White Title II Consort 08	93.917	RW2008-CCSD	6110	788,408	635,965		635,965
				1,512,863	888,560	-	888,560
Ryan White III 06	93.918	H76HA00127	6110	894,752	713		713
Ryan White III 07	93.918	H76HA00127-16-00	6110	671,064	231,024	119,216	350,240
Ryan White 08	93.918	H76HA00127	6110	872,383	524,757	132,645	657,402
				2,438,199	756,494	251,861	1,008,355
Pass through							
State Health Services:							
HIV PCPE 07	93.940	7460000858 2007	6110	386,642		24,975	24,975
HIV PCPE 08	93.940	74600008582008	6110	786,667	510,319		510,319
HIV Health/Social Services	93.940	SS2007-CCSD	6510	132,930	25,325		25,325
HIV Health/Social Services	93.940	5573-558-01	6510	211,916	217,882		217,882
				1,518,155	753,526	24,975	778,501

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. HEALTH & HUMAN SERVICES:							
Pass through							
State Health Services:							
HIV Surveillance 07	93.944	2007-021806	6110	$ 85,898	$ 9,033	$ -	$ 9,033
HIV Surveillance 08	93.944	N/A	6110	145,620	56,139		56,139
				231,518	65,172	-	65,172
STD Control 06	93.977	2007-021857	6110	246,655	52,114		52,114
STD Control 07	93.977	N/A	6110	250,855	204,666		204,666
				497,510	256,780	-	256,780
OPHP-Regional & Local Services Section	93.991	2007	6510	197,872	7,782		7,782
OPHP-Regional & Local Services Section	93.991	2008-024519	6510	197,872	182,578		182,578
				395,744	190,360	-	190,360
Total U.S. Health & Human Services				41,534,956	13,358,085	3,051,597	16,409,682
U.S. DEPT OF HOMELAND SECURITY:							
FEMA Hazard Mitigation	97.039	1606-004	6930	7,928,198	4,555,789		4,555,789
Pass through							
Texas Department of Public Safety:							
EMPG	97.042	N/A	6120	125,000	133,350		133,350
Hurricane Gustav	97.036	N/A	6120	285,000	323,122		323,122
Hurricane Ike	97.036	N/A	6120	2,100,000	562,111		562,111
				2,385,000	885,233	-	885,233
Assistance to Firefighters	97.044	EMW 2006 FP 01365	6120	71,147	68,941		68,941

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPT OF HOMELAND SECURITY:							
ABIA K-9 Bomb Squad	97.072	DTSA20-03-H-00959	6900	$ 1,163,500	$ 200,500	$ -	$ 200,500
ABIA Checkpoints	97.090	HSTS0208HSLR018	6900	2,643,653	529,608		529,608
Pass through							
Transportation Security Administration							
ABIA TSA — CCTV Cameras CIP	97.000	HTS04-07-A-CT0214	6900	973,632	973,632		973,632
Total U. S. Dept of Homeland Security				15,290,130	7,347,053		7,347,053
U.S. DEPARTMENT OF AGRICULTURE —							
Child Nutrition Awards —							
Pass through							
Texas Health & Human Services Commission:							
Summer Food Program	10.559		6000	108,735	78,344		78,344
Summer Food Program	10.559	750-1004	6000	283,000	39,453		39,453
Total U.S. Department of Agriculture and Child Nutrition Awards				391,735	117,797	-	117,797
U.S. HOUSING/URBAN DEVELOPMENT —							
CDBG — Entitlement and (HUD administered) Small Cities Awards:							
Community Development Block Grant	14.218	B-06-MC-48-0500	6130	7,631,041	1,432,865	2,914,167	4,347,032
Community Development Block Grant	14.218	B-07-MC-48-0500	6130	7,618,132	2,622,133	1,791,184	4,413,317
Total U.S. Housing/Urban Development and CDBG Awards				15,249,173	4,054,998	4,705,351	8,760,349
U.S. DEPARTMENT OF TRANSPORTATION:							
Highway Planning and Construction Awards:							
Pass through							
Texas State Highways and							
Public Transportation Department:							
Austin Crosstown Bikeway	20.205	CSJ0914-04-166	6090	1,966,481	468,238		468,238
FM 734/Neenah/Amherst	20.205	3417-01-021	6090	189,354	125,156		125,156

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:							
Pass through							
Public Transportation Department:							
Jollyville/Floral/Braker Sidewalks	20.205	0914-04-179	6090	$ 417,568	$ 3,929	$ -	$ 3,929
Jollyville/Loop 360 Bi/Pedestrian Lanes	20.205	0914-04-181	6090	659,750	38,690		38,690
Cesar Chavez-San Antonio St. to Brazos St	20.205	CSJ0914-04-219	6090	2,400,000	2,400,000		2,400,000
Barton Springs Rd Bicycle Lane	20.205	CSJ0914-04-219	6090	738,304	524,187		524,187
Regional Bicycle Routes	20.205	CSJ0914-04-221	6090	800,000	54,867		54,867
Wm. Cannon from Pleasant Valley	20.205	8050-14-006	6090	4,302,584	11,730		11,730
Total Highway Planning and Construction Awards				11,474,041	3,626,797	-	3,626,797
Highway Safety Awards:							
Pass through							
Texas State Highways and Public Transportation Department — STEP-Comprehensive Traffic	20.600	588EGF6012	6090	242,500	241,915		241,915
Pass through							
Texas State Highways and Public Transportation Department — Click It or Ticket	20.609	N/A	6090	60,000	46,316		46,316
Total Highway Safety Awards				302,500	288,231	-	288,231
Total U.S. Department of Transportation				11,776,541	3,915,028	-	3,915,028
U.S. HEALTH & HUMAN SERVICES:							
Aging Awards —							
Pass through							
Capital Area Planning Council:							
Senior Transportation	93.044	N/A	6110	92,000	90,435		90,435
Senior Luncheon Program 08	93.045	AAA08-07	6110	274,998	274,773	-	274,773

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal/State or Pass through Entity	Federal CFDA Number	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Federal or State Expenditures
U.S. HEALTH & HUMAN SERVICES:							
Aging Awards —							
Pass through							
Capital Area Planning Council:							
Senior Luncheon Program 07	93.045	AAA06-07	6110	$ 328,680	$ 39,673	$ -	$ 39,673
				603,678	314,446	-	314,446
Total Aging Awards				695,678	404,881	-	404,881
Child Care Awards —							
Pass through							
Greater Austin Area Workforce Development —							
Title IV-A At Risk Child Care 02-03	93.575	07141C01	6110	1,487,459	32,610	168,057	200,667
Total Child Care Awards				1,487,459	32,610	168,057	200,667
Total U.S. Health & Human Services				2,183,137	437,491	168,057	605,548
U.S. DEPT OF HOMELAND SECURITY —							
Homeland Security Awards:							
Pass through							
Governor's Division of Emergency Management:							
Citizens Corp Program	97.067	2005-GE-TS-4025	6120	50,000			
Citizens Corp Program	97.067	07-SR-5000-01	6120	34,751	25,785		25,785
Pass through							
Texas Department of Public Safety:							
Homeland Security Program	97.067	07-SR-5000-01	6120	651,530	4,706		4,706
Homeland Security Program	97.067	2005 HSGP-5000	6120	1,809,939	115,103		115,103
Homeland Security Program	97.067	2006-GE-T6-0058	6120	1,729,922	562,986		562,986
Metro Medical Response System(MMRS)	97.067	06-SR5000-01	6120	232,330	151,495		151,495
Metro Medical Response System(MMRS)	97.067		6631	82,780	82,780		82,780
Metro Medical Response System(MMRS)	97.067	07-SR-5000-01	6120	232,330	37,156		37,156
Total U.S. Dept of Homeland Security and Homeland Security Awards				4,823,582	980,011	-	980,011
TOTAL FEDERAL FINANCIAL AWARDS				$ 173,099,767	$ 51,621,101	$ 16,388,989	$ 68,010,090

(Continued)

CITY OF AUSTIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE PERIOD ENDED SEPTEMBER 30, 2008

	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Expenditures
TEXAS GOVERNOR'S OFFICE						
CRIMINAL JUSTICE DIVISION —						
Comprehensive Victim Services 08	SF-08-V30-17549-03	6060	$ 358,215	$ 223,894	$ -	$ 223,894
Total Texas Governor's Office Criminal Justice Division			358,215	223,894	-	223,894
STATE HEALTH SERVICES:						
TB Elimination 09	N/A	6510	363,059	20,931		20,931
TB Elimination 08	N/A	6510	369,879	351,034		351,034
			732,938	371,965	-	371,965
Primary Health Care 07-08	2008-024326	6510	113,079	131,135		131,135
Community Diabetes Project	2008-023547-001	6200	71,527	63,275		63,275
Community Diabetes Project	2009-027879	6201	80,000	3,725		3,725
Tobacco Prevention & Control Coalition	2008-025609	6240	119,290	63,046		63,046
Governor's Advisory Council on Physical Fitness	2008-027748	6511	30,000	17,100		17,100
Total State Health Services			1,146,834	650,246	-	650,246

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE PERIOD ENDED SEPTEMBER 30, 2008

	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Expenditures
TEXAS COMMISSION OF THE ARTS:						
TCA Core Support	N/A	6530	$ 6,972	$ 5,228	$ -	$ 5,228
TCA Sub-granting 07	627275	6530	28,481		1,000	1,000
TCA Sub-granting 08	8-29271	6920	30,000	28,794		28,794
Total Texas Commission of the Arts			65,453	34,022	1,000	35,022
TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:						
LEOSE-Police	N/A	6540	1,012,375	18		18
LEOSE-Police	174600000858-153	6540	105,430	42,883		42,883
LEOSE-Police	N/A	6540	104,321	25,308		25,308
LEOSE- Public Safety	17460000858-095	6540	9,034	3,729		3,729
LEOSE- Public Safety		6540	9,205	1,841		1,841
			1,240,365	73,779	-	73,779
Tobacco Compliance 07	N/A	6540	31,500	400		400
Tobacco Compliance 08	N/A	6540	31,500	31,500		31,500
			63,000	31,900	-	31,900
Emissions Reduction Incentive	582-5-64592-0283	6540	198,000	198,000		198,000
Total Texas Comptroller of Public Accounts			1,501,365	303,679	-	303,679

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE PERIOD ENDED SEPTEMBER 30, 2008

	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Expenditures
TEXAS DEPARTMENT OF TRANSPORTATION:						
Auto Theft Prevention 07	SA-T01-10039-07	6570	$ 451,721	$ 13,501	$ -	$ 13,501
Auto Theft Prevention 08	SSA-T01-10039-08	6570	364,189	334,630		334,630
Auto Theft Prevention 09	SA-T01-10039-09	6570	364,189	4,728		4,728
			1,180,099	352,859	-	352,859
STEP Impaired Driving	588XXF6007		50,000	33,714		33,714
Safe Routes to School	N/A	6230	567,132	2,648		2,648
Total Texas Department of Transportation			1,797,231	389,221	-	389,221
TEXAS STATE LIBRARY AND ARCHIVES COMMISSION:						
Loan Star Libraries 09	N/A	6580	88,000	5,505		5,505
Loan Star Libraries 08	N/A	6580	176,708	172,952		172,952
Total Texas State Library and Archives Commission			264,708	178,457	-	178,457
TEXAS PARKS & WILDLIFE — Patterson Park Hike & Bike Trails	N/A	6560	99,250	91,930		91,930
Total Texas Parks & Wildlife			99,250	91,930	-	91,930

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE PERIOD ENDED SEPTEMBER 30, 2008

	Award Number	Fund Number	Program Award or Amount	Current Expenditures	Subrecipient Payments	Total Expenditures
STATE ENERGY CONSERVATION OFFICE — Smart Meters & Remote Terminal Units	N/A	6920	$ 15,000	$ 15,000	$ -	$ 15,000
Total State Energy Conservation Office			15,000	15,000	-	15,000
TOTAL STATE FINANCIAL ASSISTANCE			$ 5,248,056	$ 1,886,449	$ 1,000	$ 1,887,449
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE			$ 178,347,823	$ 53,507,550	$ 16,389,989	$ 69,897,539

See accompanying independent auditors' report and notes to schedule of expenditures of federal and state awards. (Concluded)

1. GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all federal and state awards to the City of Austin, Texas ("City"). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Uniform Grant Management Standards ("UGMS"). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards is presented on the modified accrual basis of accounting.

3. LOANS

In addition to federal awards involving expenditures in 2008, the City of Austin has federally guaranteed loans outstanding as of September 30, 2008 with the Department of Housing and Urban Development. These loans related to the Section 108 Loan Program (CFDA 14.248). There are no continuing compliance requirements for these loans.

Three of the Section 108 loans have remaining balances to be disbursed (i.e., awarded) by the City of Austin at September 30, 2008. The balance of the NCMP Section 108 loan at September 30, 2008 is $1,172,496 and had approximately $365,169 expenditures during the year. The balance of the 11th and 12th Street loan at September 30, 2008 is $966,269 and had approximately $990 expenditures during the year. The balance of the homeless shelter loan at September 30, 2008 is $1,079,096 and had no expenditures during the year.

4. LOANS TO THIRD PARTIES

The City of Austin uses CDBG and HOME funds to grant loans to low and moderate-income individuals. As of September 30, 2008 the balance of the loans receivable was approximately $10,883,000.

5. SUBRECIPIENTS

During the year, the City had several grant programs pass funds through to subrecipients. During the year ended September 30, 2008 subrecipients were awarded $16,388,989 and $1,000 under federal and state grants, respectively.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council,
City of Austin, Texas

We have audited the basic financial statements of the City of Austin (the "City") as of and for the year ended September 30, 2008, and have issued our report thereon dated April 28, 2009, (which included an emphasis paragraph for the implementation of a new accounting standard). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 2008-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated April 28, 2009.

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council members, City management, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 28, 2009

Deloitte.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS

The Honorable Mayor and
Members of the City Council,
City of Austin, Texas

Compliance

We have audited the compliance of the City of Austin (the "City") with the types of compliance requirements described in the U.S. *Office of Management and Budget* ("OMB") *Circular A-133 Compliance Supplement* and in the State of Texas *Uniform Grant Management Standards* ("UGMS") that are applicable to each of its major federal and state programs for the year ended September 30, 2008. The City's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and UGMS. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-04.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-02, 2008-03, 2008-04 and 2008-05 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the City's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Mayor, City Council members, City management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 28, 2009

I. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?	Yes

Identification of major programs:

Federal

U. S. Department of Housing and Urban Development:

- CFDA 14.218, Community Development Block Grant (CDBG)
- CFDA 14.239, Home Grant
- CFDA 14.900, Lead Hazard Reduction

U. S. Department of Transportation:

- CFDA 20.106, Airport Improvement Program

- CFDA 20.205 (Pass through from Texas State Highways and Public Transportation Department) Highway Planning and Construction

U. S. Department of Health & Human Services:

- CFDA 93.918, Ryan White HIV/AIDS Program Part C

- CFDA 93.569 (Pass through from Texas Department of Housing and Community Affairs) Community Services Block Grant

U. S. Department of Justice:

- CFDA 16.710, Public Safety Partnership and Community Policing Grants

U.S. Department of Homeland Security:

- CFDA 97.000 (Pass through from Transportation Security Administration) ABIA TSA-CCTV Cameras Construction

State

Texas Governor's Office — Criminal Justice Division:

- Comprehensive Victim Services

Texas Department of Transportation:

- Auto Theft Prevention

State Health Services:

- TB Elimination

Dollar threshold used to distinguish between Type A and Type B programs:

- Federal — $2,040,303
- State — $300,000

Auditee qualified as low-risk auditee? No.

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Finding 2008-01: Financial Reporting Process and Nonstandard Transactions (Program N/A)

Criteria — Management is responsible for establishing internal controls to ensure that financial statements are free of material misstatement. These controls include policies and procedures that detail the financial closing and review process.

Condition and Cause — Due to the size and diversity of the City's business operations, the financial accounting and reporting is very complex. In addition to the traditional governmental services, the City also owns and operates an electric utility, a water/wastewater utility, an airport, and several other large enterprise operations. City staff are required to possess specific accounting expertise to fulfill the increased accounting and reporting requirements brought about by the Governmental Accounting Standards Board ("GASB"). The requirements mandate the City to maintain its books on two different bases of accounting — the modified accrual basis of accounting for day to day accounting and financial reporting, and the full accrual basis for year-end reporting for government wide financial statements. City staff must understand the internal processes of the City and have the ability to analyze business operations and specific transactions to determine the impact on the City's financial statements. Significant staff turnover in highly skilled positions can hinder the City's ability to maintain these requirements in a timely manner. During our audit of the financial statements, we noted

1. Substantial delays in the preparation and review of financial statements, including significant inefficiencies in year-end closing and reporting processes,

2. Non standard transactions such as conversion entries between fund level and government wide financial statements and accounting for debt refundings were not properly recorded and required adjustments,

3. Certain year end adjusting entries related to Austin Energy such as the adjustments made to record deferred costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71 and Austin Energy's investment in STP and FPP were not recorded and reviewed on a timely basis.

Most of the above was a result of turnover in financial accounting and reporting staff and lack of succession planning.

Effect — The matters described above resulted in delays in closing the books and preparing accurate financial statements.

Recommendation — Evaluate and restructure the financial closing and reporting process in order to streamline communication between the City's various departments and better coordinate year-end processes and financial statement preparation. Develop a transition plan and formalized policies and procedures to ease the effects of staff turnover. Enhance control activities related to accounting for and reviewing of nonstandard transactions. Establish procedures that require the periodic review of deferred costs related to SFAS 71 to ensure that any such costs are recoverable by future rates. Establish policies and procedures that require the review of adjusting entries related to Austin Energy by the appropriate member of Austin Energy management.

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE FEDERAL AND STATE AWARDS:

Finding: 2008-02

Program: Highway Planning and Construction (CFDA 20.205)

Type — Internal Control over Reporting

Condition and Perspective – The City did not identify three reimbursements for the Highway Planning and Construction Program that should have been accrued at fiscal year-end. These requests in total were material to the grant, which is reported in the Schedule of Expenditures of Federal and State Awards (the "Schedule") on a modified accrual basis of accounting.

Underlying Cause —The expenditures related to construction in progress funds and were not properly recorded in grant expenditures at fiscal year end. As such, the related grant expenditures were not included in the Schedule.

Criteria — The Schedule of Expenditures of Federal and State Awards should be prepared consistently in accordance with the determined basis of accounting.

Effects — Inaccurate reporting of expenditures by the City could lead to inaccurate reporting of grant expenditures and non-compliance with grant requirements. Correcting entries were made and the Schedule of Expenditures of Federal and State Awards is properly presented.

Questioned Costs — None.

Recommendation — Implement procedures or monitor existing procedures that require the verification of reimbursements at fiscal year end and ensure that accruals are prepared for expenditures related to the current fiscal year.

Finding: 2008-03

Program: Lead Hazard Reduction (CFDA 14.900)

Type — Internal Controls over Reporting

Condition and Perspective — The amount originally reported on the Schedule of Expenditures of Federal and State awards (the "Schedule") erroneously included $110,000 of matching funds related to this grant.

Underlying Cause — The error was not detected by the City as there was limited communication between the grant program department and the Controller's Office and the Schedule had not been provided by the Controller's office to the grant program department for review.

Criteria — The Schedule of Expenditures of Federal awards should be prepared consistently in accordance with the determined basis of accounting and should be reconciled to underlying records.

Effects — An inaccurate schedule prepared by the City could lead to inaccurate reporting of grant expenditures and non-compliance with grant requirements. Correcting entries were made and the Schedule of Expenditures of Federal and State Awards is properly presented.

Questioned Costs — None.

Recommendation —Implement and document a process to record and monitor grant program match expenditures separately from direct grant expenditures. The Controller's Office and respective grant program department need to communicate to ensure that expenditures are properly recorded and included in the financial reports.

Finding: 2008-04

Program: Community Services Block Grant (CFDA 93.569)

Type — Compliance and Controls over Eligibility requirements

Condition and Perspective— Three of 25 client files selected for testing did not include adequate documentation of income or declaration of income. In addition, one file did not have the caseworker's signature on the Centralized Intake Application. No federal grant funds are paid directly to participants in this program as the participants receive counseling services.

Underlying Cause— Program management notes that CSBG has not had regular training for caseworkers and supervisors. In addition, files are not being reviewed by the program supervisors to ensure that proper procedures are being followed.

Criteria — Eligibility documentation should be maintained in client files. In accordance with 42 USC section 9902, the term "poverty line" means the official poverty line defined by the Office of Management and Budget based on the most recent data available from the Bureau of Census. The Secretary shall revise annually (or at any shorter interval) the line, which shall be used as a criterion of eligibility in the community services block grant program (CSBG) established under this chapter. The required revision shall be accomplished by multiplying the official poverty line by the percentage change in the Consumer Price Index for All Urban Consumers during the annual or other interval immediately preceding the time at which the objectives of the block grant program are established under this chapter. The State may revise the poverty line to not to exceed 125 percent of the official poverty line otherwise applicable under this paragraph.

Effects — The City could provide services to individuals that are ineligible for the grant services.

Questioned Costs — None.

Recommendation — The Health and Human Services (HHS) department of the City should follow the established procedures to ensure compliance with the federal regulations. Additional controls should be considered to ensure necessary documentation is maintained regarding eligibility of individuals. Periodic training programs should be required for all caseworkers.

Finding: 2008-05

Program: Community Services Block Grant (CFDA 93.569)

Type — Internal Control over Reporting

Condition and Perspective — The City requested reimbursement for invoices amounting to approximately $56,260, when these invoices had also been previously requested. This request was denied by the grantor.

Underlying Cause — The department and program management did not communicate the reimbursement request of the funds, which resulted in the same expenses being submitted on two different reimbursement requests.

Criteria — Expenditure reports for federal awards submitted to the federal awarding agency or the pass-through entity should include only activity of the reporting period which is appropriately supported by underlying accounting records.

Effects — Inaccurate submission of expense by the City could lead to inaccurate reporting and non-compliance with the grant guidelines. The City did not receive duplicate funding as the issue was discovered by the granting agency and the City was denied duplicate payment and as such there are no questioned costs.

Questioned Costs — None.

Recommendation — Implement review procedures to monitor all requests for reimbursements to ensure that requests are properly supported by original expenditures.

***Finding* 2008-01:** Financial Reporting Process and Nonstandard Transactions (Program N/A)

Contact person — Diana Thomas, Controller

Management Response — *(Department – Financial and Administrative Services)* - Concur. During the audit period, 4 of 6 staff members of the Controller's Office Enterprise Accounting section left City employment. The lack of staff and insufficient cross-training made it difficult to complete the report in a timely manner. The Controller's Office will work toward a more standardized approach to financial statement preparation and review of non-standard transactions.

Estimated completion — September 30, 2009

***Finding* 2008-02 Program:** Highway Planning and Construction Cluster (CFDA 20.205)

Contact person — Susan Cox, Financial Manager, Public Works Department

Management Response — These expenditures were not properly booked by the close of the fiscal year, however, correcting entries were made for the expenses and reimbursement statements. Staff vacancies contributed to the oversight and additional training will be provided to staff to ensure that all reimbursements are properly recorded by the end of the fiscal year to maintain compliance with the grant reporting requirements

Estimated completion — July 2009

***Finding* 2008-03 Program:** Lead Hazard Reduction (CFDA 14.900))

Contact person — Joseph Gonzales, Accounting Manager - Corporate, Controller's Office

Management Response — *(Department – Financial and Administrative Services)* - Concur. The City's financial reporting process for grants is currently a manual process. This matching amount was entered in the wrong column on the Schedule of Expenditures of Federal and State awards. The Controller's Office is currently working on a project to reduce the amount of data entry required in the grant reporting process. In addition, the Controller's Office will work with City departments to reconcile the preliminary Schedule of Expenditures of Federal and State awards to financial reports filed with grantors by the departments.

Estimated completion — September 30, 2009

***Finding* 2008-04 Program:** Community Services Block Grant (CFDA 93.569)

Contact person — Cathleen Rodriguez, HHS Manager, HHS Department

Management Response — Healthy Neighborhood Unit (HNU) Manager has implemented revisions to the standard of practice ensuring that program supervisors are conducting ongoing client record reviews utilizing the revised audit tool. The results of these reviews will be submitted to the unit office on a quarterly basis by the program supervisors. The quarterly report will ensure timely reviews are being conducted by the program supervisors. In addition, the unit office will conduct monthly onsite reviews at each of the neighborhood centers as an added measure of ensuring compliance with federal regulations. All unit staff will be required to attend annual training that will address required data collection and reporting requirements.

Estimated completion — Revised standards of practice implemented as of March, 2009. Staff training will be conducted in June, 2009 with subsequent trainings to be conducted at the beginning of every contract year, starting January, 2010.

Finding **2008-05 Program:** Community Services Block Grant (CFDA 93.569)

Contact person — Lavern Mitchell, Financial Manager, HHS Department

Management Response — The Health Department agrees that there was a breakdown in communication between the HHSD program and HHSD Accounting Services which resulted in a duplicate payment being requested. Health has since implemented procedures which require monthly monitoring of all grant revenue and expenditure transactions as grant billings are prepared.

Estimated completion — Procedure was implemented 10/01/2008

Finding 2007-1 City Payroll System, Banner (Program: Not Applicable)

Summary — During performance of general internal control procedures, Banner developers were determined to have access to deploy code changes into production. In addition, developers also have high privilege administrative access to the Banner application. A formal documentation system is not in place for tracking changes from request to deployment; therefore, the requests for authorization, test results, and final user approval prior to deployment are not maintained. The City of Austin did reconcile the payroll bank account as of year-end with no material reconciling items identified. Also the Banner results for each payroll period are interfaced into the City of Austin's general ledger system, Advantage 3, the City's system of record. The application level controls for the interface were found to be functioning as designed.

Recommendation — The City of Austin should formally document their change management processes including the authorization, testing, and approval of the change requests. Since the Banner support team is small in size, management may determine that developers need to have access to deploy code changes and to perform administrative functions. In this situation, the City of Austin should implement a monitoring control where a person independent of computer operations, such as the Controller or Deputy Controller, periodically review an access log that details all changes made in enough detail to conclude on their validity. The log must be of a nature that the developers can not access and change in order to be an effective monitoring control.

Management Response and Corrective Action Plan — City has many internal controls in place to assure accuracy of the Banner payroll system. A few of the significant controls include timely reconciliation of the payroll bank account, segregation of processes and procedures, exception reporting, and detailed reporting to City departmental personnel for final check verification.

In order to address this specific finding, the City is implementing three processes. First, a code repository and tracking system (CVS) will be implemented to track and document changes to the production code. Second, a formal procedure will be developed to deploy code changes into production. A signoff will be required of the technical staff, functional (tester) staff and management prior to deploying the code changes to production. The technical signoff will be performed by a person different than the original developer. Finally, the City's Communications and Technology Management (CTM) Department will take over responsibility for moving code changes to the production environment. The formal procedure will include notification and authorization from management for CTM to move the code into the production environment. The Banner developers will no longer have access to the production code.

Responsible Person: Diana Thomas, Controller

Status — Implemented. The City has implemented all three processes. In February 2008, Banner code was logged into the CVS code repository and tracking system and signoff of code changes were put into place. In May 2008, CTM took over responsibility for moving code changes to the production Banner environment.

Finding 2007-02 Cash Management
Program: CFDA 14.239 — HOME Investment Partnerships Program Award year – October 1, 2006 to September 30, 2007 Award number — M-06-MC-48-0500 Type of finding — Significant Deficiency and Non-Compliance

Summary — The U.S. Department of Housing and Urban Development (HUD) grant guidelines state that the participating jurisdiction shall, not later than 15 days after funds are drawn from the jurisdiction's HOME Investment Trust Fund, invest such funds, together with any interest earned thereon, in the affordable housing for which the funds were withdrawn. It is the City of Austin's responsibility to established procedures to minimize the time elapsing between drawdown and disbursement of funds in accordance with HUD specifications.

Out of a sample of 40 cash receipts during fiscal year 2007 for CFDA 14.239, three cash receipts were noted to be held longer than 15 days before the funds were paid out for program purposes. These three cash receipt samples were held 109, 74, and 96 days before being released for payment. The total of these three cash receipts was approximately $2,915. Upon review of all the cash receipts in fiscal year 2007 for CFDA 14.239, 14 were held more than 15 days before being released for program purposes. The total of these cash receipts are approximately $12,300. Interest earned on these cash receipts was $63.

Recommendation — The City of Austin should ensure that the time lapse between receiving federal funds before payments are made is not later than 15 days.

Management Response and Corrective Action Plan — The Neighborhood Housing and Community Development Office concurs that the sample selected had three invoices that were drawn down from the U.S. Department of Housing and Urban Development that exceeded the 15 day time period between the draw down and the issuance of a check to the vendor. The lapse in time occurred due to the implementation of a new accounting system at the beginning of the fiscal year-ended September 30, 2007. The processing of some payment transactions was delayed due to matching issues associated with a three-way matching process in the new accounting system. Effective immediately, management will confirm that a check has been issued prior to requesting reimbursement from the U.S. Department of Housing and Urban Development.

Implementation Date: June 23, 2008

Responsible Person: Diana Domeracki, Administrator, Community Development for the Housing Department

Status — Due to delays in drawing program delivery costs from HUD there are no instances where the City received excess cash from HUD. In addition, the Neighborhood Housing and Community Development Office has implemented steps that require draw downs from HUD to occur after a check has been issued by the City Controller's Office.

Finding 2007-3 (Prior audit issue No. 2006-07)
Allowable Cost/Cost Principles Earmarking Period of Availability of Federal Funds
CFDA 93.218 — Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease Award year — January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007 Award number — Significant Deficiency and Non-Compliance

Summary — OMB Circular A-87, attachment B, section 8H, requires that, for employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:

- Reflect an after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Are prepared at least monthly and coincide with the pay period, and
- Are signed by the employee.

A sample of 38 payroll expenditures charged to the program were selected for review. During the review, one timesheet could not be located to perform test work. A second timesheet reviewed was not signed by the employee. A third timesheet reviewed did not devote time to be charged to CFDA 93.218. The City noted an adjustment was made but support was not available to determine if the change was allowable.

The salary and benefits charged to the grant for the unlocated timesheet and the unsigned timesheet total approximately $4,250. The total amount of salary and benefits expense transferred to/from CFDA 93.218 without proper supporting documentation is approximately $6,990.

Recommendation — The City of Austin should ensure that the appropriate documentation is retained in order to ensure that employees have certified their time and the supervisor has approved the personnel activity reports (timesheets) when salaries are charged to grants. When adjustments are made to time and effort, supporting documentation should also be maintained.

Management Response and Corrective Action Plan — The Community Care Services Department (CCSD) is in the process of refining its current policies and procedures related to Personnel Activity Reports (timesheets). As a result of the missing timesheet, CCSD's Human Resources Department is requiring all unit timekeepers to establish uniform filing systems that will ensure timesheets are not misplaced or lost, and timesheets are kept in a secure location with limited access. This process will be evaluated monthly by random audits and onsite visits.

Health and Human Services Department (HHSD) acknowledges that a time sheet was submitted without the employee signature. The employee was absent on sick leave when time sheets were due and needed to be submitted. Generally a note is added in reference to the missing signature. In this case a reference note was not included. HHSD will institute additional review procedures in an effort to ensure that timesheets submitted during employee absenteeism are documented accordingly.

With regard to the time sheet that reflected time charged that was not consistent with where the personnel costs were billed, the program activities allows for transferring of charges between grants. In this case the HOPWA grant expenditures surpassed administration approved plan, therefore the excess charges were authorized by the program to be transferred to Ryan White Part C. The department will continue to require written authorization from program management as part of the support documentation for all expense transfer requests. During the payroll suspense clearing process, the program will provide written authorization to HHSD Budget Office and HHSD Personnel Office to attach to the timesheets of employees whose time is being charged to a grant other than the grant that is reflected on the timesheet.

Implementation Date: Immediately for CCSD and July 1, 2008 for employee timesheets

Responsible Person: Mark Peppler, HR Manager, HHSD

Status — The Community Care Services Department (CCSD) has established a uniform process for filing of all timesheets. We have also required all Business Office Supervisors to review all timesheets for their locations to verify the accuracy of all information submitted. All timesheets are maintained in a secure location in the Human Resources unit of CCSD, once entered and verified at each of our locations. Random audits are conducted by the departmental Timekeeper Administrator.

The HHSD has implemented a procedure to track grant related personnel transaction changes. A new form has been created to document task order changes.

When grant funds are depleted or the task order does not have sufficient funds to cover all personnel expenses charged to it, expenses go into suspense. At that time, the Budget Office notifies the Program staff who then submits a correction using the new form that documents the changes. Along with the notification, Budget provides a payroll suspense document number that is included in the justification section of the form.

Copies of the personnel transactions correction are sent to the HHSD Budget and Human Resources Offices and a copy is attached to the time sheet of the employee whose time is being adjusted. A copy is also kept in the program unit with time sheet records.

Finding 2007-04 Eligibility
Program: CFDA 93.569 — Community Services Block Grant Award year —January 1, 2007 to December 31, 2007 Award number — CSBG 07-616004 Type of Finding — Significant Deficiency and Material Non-Compliance

Summary — In accordance with 42 USC section 9902, the term "poverty line" means the official poverty line defined by the Office of Management and Budget based on the most recent data available from the Bureau of Census. The Secretary shall revise annually (or at any shorter interval) the line, which shall be used as a eligibility in the community services block grant program (CSBG) Department established under this chapter. The required revision shall be accomplished by multiplying the official poverty line by the percentage change in the Consumer Price Index for All Urban Consumers during the annual or other interval immediately preceding the time at which the objectives of the block grant program are established under this chapter. The State may revise the poverty line to not to exceed 125 percent of the official poverty line otherwise applicable under this paragraph.

The Health and Human Service (HHS) department of the City of Austin has a screening process in place to determine eligibility at the applicant intake, which is the initial appointment to determine needs for CSBG. Applicants are required to produce a picture ID and proof of address, as well as proof of income. If the applicant does not have any income they are required to sign a declaration of income statement. For a sample 40 individuals who were determined eligible and received services in fiscal year 2007, two individual's files could not be located for review. Additionally, there were three files that did not contain proof of income or declaration of income statement. No federal grant funds are paid to participants in this program and the participants receive counseling services.

Recommendation — The Health and Human Services (HHS) department of the City of Austin should follow the established procedures to obtain compliance with the federal regulations. Additional controls should be considered to ensure necessary documentation is maintained to ensure ineligible individuals are not awarded CSBG funds.

Management Response and Corrective Action Plan:

4. A standard of practice for Records Maintenance is already in place, but as part of the Healthy Neighborhood Unit's Continuous Quality Improvement plan (CQI), a procedure will be included to conduct an annual inventory of case files at each of the centers. A records management liaison will take the lead for this task. Currently, staff are not allowed to keep client case files in their offices. All records are to be placed in the secured records room at the end of the day. An "out card" is to be utilized whenever a client record is removed from central files. In addition, an annual review of the Records Management standard of practice will be conducted with staff.

5. Based on a review by the newly hired Healthy Neighborhood Unit manager it was determined that the Unit's standard of practice for reviewing case records on a quarterly basis was not being followed. Effective immediately, program supervisors will be required to follow the standard of practice for Client Record Audits to ensure accountability and compliance with CSBG. In addition, the Unit Manager will be providing a client record audit report on a quarterly basis to the Continuous Quality Committee.

Implementation Date: Immediately

Responsible Person: Cathleen Rodriguez, HHS Manager, HHS Department

Status — Corrective action has been implemented to increase frequency of client record reviews and required reporting to ensure the occurrence of the client record reviews. In addition, program supervisors are utilizing a revised audit tool.

Finding 2007-05 Davis Bacon
Program: CDBG — Entitlement and (HUD Administered) Small Cities Cluster Award year — October 1, 2006 to September 30, 2007 Award number – B-06-MC-48-0500 Type of Finding — Significant Deficiency and Material Non-Compliance

Summary — The requirements of the Davis-Bacon Act apply to the rehabilitation of residential property if such property contains eight or more units. However, the requirements do not apply to volunteer work where the volunteer does not Questioned Cost: $ 5,000 receive compensation, or is paid expenses, reasonable benefits or a nominal fee for such services, and is not otherwise employed at any time in construction work, according to 42 USC5310, 24 CFR section 570.603.

The Neighborhood Housing and Community Development department of the City of Austin ensures that prevailing wage rates are communicated to contractors through the bid process and in the pre-construction meeting. CDBG program managers review timesheets that are submitted weekly by the contractors for accuracy and compliance with the prevailing wage rates. Payroll certifications are signed and submitted by the contractors certifying the payroll submitted. Out of a sample of 40 weekly payroll certifications submitted by contractors in fiscal year 2007, four were not signed by the contractors for certification. The amount of these four payroll summaries was approximately $5,000.

Recommendation — The Neighborhood Housing and Community Development department of the City of Austin should follow the established procedures to obtain compliance with the federal regulations. Program managers should ensure payroll summaries are certified when they review for prevailing wage rates.

Management Response and Corrective Action Plan — The City of Austin Neighborhood Housing and Community Development Office (NHCD) concurs that at the time of review the wage statement was not signed. NHCD will ensure that all future wage statements are properly completed and signed.

Implementation Date: April 2008

Responsible Person: Diana Domeracki, Administrator, Community Development for the Housing Department

Status — The Neighborhood Housing and Community Development Office continues to ensure that all wage statements are properly completed and signed.

Finding 2007-06 Allowable Costs/Cost Principles Earmarking Reporting
Program: CFDA 14.239 — HOME Investment Partnerships Program Award year — October 1, 2006 to September 30, 2007 Award number — M-06-MC-48-0500; CDBG — Entitlement and (HUD Administered) Small Cities Cluster Award year — October 1, 2006 to September 30, 2007 Award number — B-06-MC-48-0500 Type of finding — Non-Compliance

Summary — The City of Austin Neighborhood Housing and Community Development Department provided documentation from U.S. Department of Housing and Urban Development (HUD) that defines administrative costs and project-related soft costs, clarifies the distinction between them, and provides guidance to participating jurisdictions on how to categorize costs. The following are included in the definition of administrative costs, as described in 24 CFR Part 92.207: (a) general management, oversight and coordination; (b) staff and overhead; (c) public information; (d) fair housing; (e) indirect costs; (f) preparation of the Consolidated Plan and (g) other Federal requirements. Of these costs, it is only (b), project-related or relocation-related staff and overhead costs and (g) certain environmental costs that a participating jurisdiction has the option to charge as either administrative costs or project-related soft costs.

The City of Austin allocates certain central service costs to the various city departments based upon an approved allocation methodology. The City of Austin Neighborhood Housing & Community Development Department includes certain of these central services costs in their indirect cost pool which is recouped in accordance with the various grant administrative requirements. These costs are including the in the category noted at (e) indirect costs in the above paragraph. For the remainder of these central service costs, the City of Austin Neighborhood Housing & Community Development Department is treating the expenses as direct project expenditures based on their interpretation of the provision noted above "Of these costs, it is only (b) project related or relocation related staff and overhead costs and (g) certain environmental costs that a participating jurisdiction has the option to charge as either administrative costs or project-related soft costs." The City of Austin Neighborhood Housing & Community Development Department has represented that the central service expenditures being charged as direct project costs are the allocated portion that would be related to project related personnel.

Under OMB Circular A-87, most governmental entities provide services, such as accounting, purchasing, computer services, and fringe benefits, to the different operating departments on a centralized basis. Since the Federal awards are performed within the individual operating departments, there must be a process whereby these central service costs are identified and assigned to benefiting operating department activities on a reasonable and consistent basis. As noted above, the City of Austin does have an approved allocation methodology. These allocated central services costs are referred to as Section I costs in OMB Circular A-87 and are typically included in the benefiting department or agency's indirect cost pool. Therefore, the City of Austin's interpretation of the guidance provided by HUD is unclear based on the treatment of central service costs under OMB Circular A-87.

Total central service costs expended to major and non-major programs for fiscal year 2007 that were not categorized as administration were:

Federal Program	Dollar Amount
CFDA 14.239 Hom Investment Partnership Program	$ 32,605
CDBG Cluster	51,222
Total	$ 83,827

Recommendation — The City of Austin Neighborhood Housing and Community Development Department should seek clarification from HUD as to the allowability of including the central service expenses as direct program costs.

Management Response and Corrective Action Plan: The City of Austin Neighborhood Housing and Community Development Department will seek clarification from HUD as to the allowability of including the central service expenses as direct program cost.

Implementation Date: September 1, 2008

Responsible Person: Diana Domeracki, Administrator, Community Development for the Housing Department

Status — The Neighborhood Housing and Community Development ("NHCD") Office received concurrence from HUD regarding the auditor's interpretation in this finding. In fiscal year 2007-2008, NHCD reversed all ineligible costs previously charged to programs to administration. The department continues to charge administrative costs to grant administration and support services.