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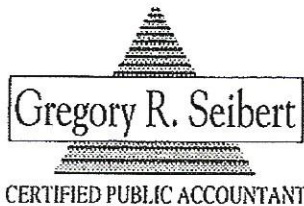
**BEXAR-MEDINA-ATASCOSA COUNTIES WATER  
CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**AUDITED FINANCIAL STATEMENTS**

DECEMBER 31, 2011

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### Independent Auditor's Report

March 3, 2012

To the Board of Directors  
Bexar-Medina-Atascosa Counties Water Control  
and Improvement District No. 1  
Natalia, Texas

I have audited the accompanying financial statements of the business-type activities of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (the District) as of and for the year ended December 31, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. I believe that my audit provides a reasonable basis for my opinion.

As more fully discussed in note 6 to the financial statements, the District has not determined the quantity and value of land acquired for operation and expansion of the irrigation system since the District's creation in 1925. The District's records do not permit the application of alternative procedures regarding the value of such land at the time of acquisition.

In my opinion, except for the omission of the information discussed in the preceding paragraph and as discussed in note 6, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 as of December 31, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

  
GREGORY R. SEIBERT  
CERTIFIED PUBLIC ACCOUNTANT

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended December 31, 2011**

The discussion and analysis of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1's (the District) financial performance provides an overview and analysis of the District's financial activities for the year ended December 31, 2011. It should be read in conjunction with the audited financial statements, which can be found following the MD&A.

**District Overview**

The District experienced a continuation of drought conditions in its service area for the year ended December 31, 2011. This resulted in higher than expected irrigation water sales. The major projects continued on pace with no substantial changes. There were no significant changes to management or other employees of the District.

**FINANCIAL HIGHLIGHTS**

The assets of the District exceeded its liabilities at the close of the year ending December 31, 2011 by \$14,696,204 of that amount, \$1,982,544 (unrestricted net assets) may be used to meet the District's ongoing obligations to landowners and creditors.

The District's total net assets increased by \$3,478,476 for the year ended December 31, 2011.

The District's operating revenues increased by \$291,750 over the prior year.

The District's ending total assets equaled \$19,351,242, which represents a 21% increase over the prior year.

The District's total debt decreased by \$145,000 during the year ending December 31, 2011.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the District's financial statements. The District's financial statements are comprised of two components, government-wide financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District'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 District is improving or deteriorating.

The Statement of Activities presents information showing how the government'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 periods.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year ended December 31, 2011**

**Reporting the District's Most Significant Funds**

The District is a special-purpose government that is engaged only in a business-type activity, which is the sale of water for irrigation and municipal purposes.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning budgetary comparative information

**THE DISTRICT AS A WHOLE**

The District's net assets were \$14,696,204 as of December 31, 2011. By far the largest portion of the District's net assets (87 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to landowners; consequently, these assets are not available for future spending. Although the District's investment in 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 used to liquidate these liabilities.

**Table 1 - Summary of Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 6,637,582	\$ 6,645,701	\$ (8,119)
Capital assets	12,713,660	9,341,693	3,371,967
Total assets	<u>19,351,242</u>	<u>15,987,394</u>	<u>3,363,848</u>
Current liabilities	455,038	410,273	44,765
Long-term liabilities	4,200,000	4,359,393	(159,393)
Total liabilities	<u>4,655,038</u>	<u>4,769,666</u>	<u>(114,628)</u>
Net assets:			
Invested in capital assets, net of related debt	12,713,660	9,293,277	3,420,383
Unrestricted	1,982,544	1,924,451	58,093
Total net assets	<u>\$ 14,696,204</u>	<u>\$ 11,217,728</u>	<u>\$ 3,478,476</u>

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year ended December 31, 2011**

**THE DISTRICT'S FUNDS**

Table 1 below presents a summary of revenues for 2011 and 2010 and the amount of change in relation to the prior year.

**Table 1 - Revenues**

	2011	2010	Increase (Decrease)
<u>Municipal water sales</u>	\$ 1,378,206	\$ 1,378,206	\$ -
Fixed water assessments	352,381	352,138	243
<u>Irrigation water sales</u>	456,297	164,790	291,507
<u>Land inclusion</u>	287,758	-	287,758
Grant revenue	2,650,979	-	2,650,979
Bexar-Met	184,671	679,292	(494,621)
Investment earnings	45,404	52,685	(7,281)
Other	108,896	142,155	(33,259)
	<u>\$ 5,464,592</u>	<u>\$ 2,769,266</u>	<u>\$ 2,695,326</u>

The increase in irrigation water sales was due to a decrease in rainfall in 2011, which increased the need for irrigation.

{ Land inclusion income was the result of property owners that wished to have their land included in the District and paid the accompanying fee.

Grant revenue is the result of a grant received from the State of Texas, which is administered through the Texas Water Development Board for the rehabilitation of the dam.

The decrease in revenue form Bexar-Met was due to the expiration in 2010 of a contractual agreement that called for annual payments to the District of \$500,000.

The Table 2 below represents a summary of expenses for 2011 and 2010 and the amount of change in relation to the prior year.

**Table 2 - Expenses**

	2011	2010	Increase (Decrease)
Payroll	\$ 632,657	\$ 573,463	\$ 59,194
Professional fees	163,988	182,494	(18,506)
Contracted services	16,052	15,385	667
Maintenance and repairs	40,687	33,635	7,052
Insurance	143,120	119,057	24,063
Materials	121,373	96,785	24,588
Taxes	48,010	43,780	4,230
Operations	634,624	583,206	51,418
Interest	185,605	125,207	60,398
	<u>\$ 1,986,116</u>	<u>\$ 1,773,012</u>	<u>\$ 213,104</u>

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended December 31, 2011**

**Budgetary highlights**

The District reported overall revenues of \$5,464,592 versus the budget estimate of \$2,355,295 for a positive variance of \$3,109,297.

**Capital Assets and Debt Administration**

**Capital Assets**

At December 31, 2011 the District had \$12,713,660 invested in capital assets, including land, dam, water system, equipment, vehicles, etc. This amount represents a net increase (additions, deductions, and depreciation) of \$3,371,967, or 36% over last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 194,451	\$ 194,451
Buildings	170,245	170,245
Machinery and equipment	2,122,932	2,088,962
Dam and water system	13,450,146	9,839,198
Vehicles	485,730	452,314
Other	<u>86,789</u>	<u>86,789</u>
	16,510,293	12,831,959
Accumulated depreciation	<u>(3,796,633)</u>	<u>(3,490,266)</u>
	<u>\$12,713,660</u>	<u>\$ 9,341,693</u>

**Debt Outstanding**

At year end the District had \$4,355,000 of contract revenue notes outstanding. These notes were issued in 2010 and are to finance the water system rehabilitation project.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our landowners, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions concerning any of the information provided in this report or requests for additional financial information, contact the District at P.O. Box 170, Natalia, Texas 78059.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**STATEMENT OF NET ASSETS**

December 31, 2011

**ASSETS**

	<u>Business-type Activities</u>
Current asset:	
Cash	\$ 1,535,799
Accounts receivable:	
Fixed water assessments - net	79,335
Other	25,630
Inventory	351,034
<u>Settlement receivable</u>	<u>81,342</u>
Accrued interest	29,278
Prepaid expenses	77,486
Total current assets	<u>2,179,904</u>
Property, plant and equipment	12,713,660
Restricted cash	4,306,714
Deferred charge - debt issue costs - net	150,964
	<u>17,171,338</u>
	<u>19,351,242</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	41,427
Deferred revenue	145,266
Accrued liabilities	113,345
Current portion of contract revenue notes	155,000
Total current liabilities	<u>455,038</u>
<u>Contract revenue notes</u>	<u>4,200,000</u>
	<u>4,200,000</u>
Total liabilities	<u>4,655,038</u>

**NET ASSETS**

Invested in capital assets, net of related debt	12,713,660
Unrestricted	1,982,544
	<u>\$ 14,696,204</u>

See independent auditor's report and accompanying notes to financial statements.



**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**STATEMENT OF ACTIVITIES  
Year Ended December 31, 2011**

	<u>Business-type Activities</u>
Revenues from operations:	
Municipal water sales	\$ 1,378,206
Fixed water assessments	352,381
Irrigation water sales	456,297
	<u>2,186,884</u>
Operating expenses:	
Directors fees	12,654
Payroll	632,657
Retirement	58,497
Professional fees	163,988
Contracted services	16,051
Maintenance and repairs	40,688
Insurance	143,120
Depreciation	300,860
Amortization	23,290
Telephone	9,532
Utilities	7,824
Fuel and lubricants	136,464
Water master fee	29,674
Materials	121,373
Supplies	12,550
Uniforms	8,999
Employee recognition	9,042
Postage	8,288
Legal notices & recording fees	6,510
Taxes - payroll	48,010
Dues and subscriptions	7,628
Travel	2,812
	<u>1,800,511</u>
Income from operations	<u>386,373</u>
Nonoperating revenues (expenses):	
Grant revenue	2,650,979
<u>Land inclusion</u>	<u>287,758</u>
Bexar-Met	184,671
Other	108,896
Interest and dividend income	45,404
Interest expense	(185,605)
	<u>3,092,103</u>
Change in net assets	3,478,476
Net assets at beginning of year	11,217,728
Net assets at end of year	<u>\$ 14,696,204</u>

See independent auditor's report and accompanying notes to financial statements.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2011

Operating activities:	
Receipts from Customers	\$ 2,183,657
Cash payments to suppliers of goods and services	(1,105,623)
Cash payments to employees	(632,657)
Net cash provided by operating activities	<u>445,377</u>
Noncapital financing activities:	
Proceeds from Bexar-Met	184,671
Net cash provided by noncapital financing activities	<u>184,671</u>
Capital and related financing activities:	
Proceeds from grant	2,650,979
Other non-operating revenues	396,654
Purchase of property, plant and equipment	(3,601,864)
Payments on contract revenue notes	(145,000)
Interest on contract revenue notes	(198,169)
Net cash used in capital and related financing activities	<u>(897,400)</u>
Investing activities:	
Interest income	45,404
Net cash provided by investing activities	<u>45,404</u>
Decrease in cash and cash equivalents	(221,948)
Cash and cash equivalents at beginning of year	1,757,747
Cash and cash equivalents at end of year	<u>\$ 1,535,799</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Income from operations	\$ 386,373
Adjustments to reconcile income from operations to net cash used for operating activities:	
Depreciation	300,860
Amortization	23,290
(Increase) decrease in operating asset items:	
Accounts receivable:	
Fixed water assessments - net	(984)
Other	(4,211)
Inventory	(338,954)
Prepaid expenses	31,006
Accrued interest	13,232
Increase (decrease) in operating liability items:	
Accounts payable	26,377
Deferred revenue	6,765
Accrued liabilities	1,623
Net cash provided by operating activities	<u>\$ 445,377</u>

See independent auditor's report and accompanying notes to financial statements.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**Note 1 - Organization and Operations**

**Reporting Entity**

The Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (the District) was organized as a municipal corporation under the Water Improvement District laws of Texas, Section 52, Article III, Texas Constitution; Chapter 2, Title 128, Article 7622 and subsequent, Revised Statutes of Texas of 1925; and Chapter 87 of the general laws passed by the Thirty-fifth Legislature at the regular session in 1917. The District currently operates under Article XVI, Section 59 of the Texas Constitution, Chapters 49, 50 and 51 of the Texas Water Code, and other applicable general laws of the State. The District was reorganized as a municipal corporation or Irrigation District on February 8, 1925. The District provides irrigation water to a three county area in south-central Texas.

The District is governed by a seven member Board of Directors, elected by the landowners of the District to serve a four-year term and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The Board also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*", and is not included in any other governmental reporting entity.

**Component Units**

Under GASB 14, component units are organizations for which the District is financially accountable and all other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the foregoing criteria, there are no component units required to be included in these financial statements.

**Note 2 - Summary of Significant Accounting Policies**

**Measurement Focus**

The accompanying financial statements are reported using the economic resources measurement focus and full accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the liabilities are incurred, regardless of the timing of related cash flows.

The District operates as an enterprise (proprietary) fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District comes from fees charged to district landowners for irrigation water.

**BEXAR-MEDINA-ATASCOSA COUNTINES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus (Continued)**

Operating expenses include the costs of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Basis of Presentation**

The District presents its financial statements in accordance with GASB Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which provides guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and Required Supplementary Information (RSI) of the District consist of Management's discussion and analysis, Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows, Notes to the Financial Statements, and Trend Information for the Retirement Plan.

The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). The District applies all applicable GASB pronouncements as well as any Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the basic financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, all highly liquid investments with maturity of three months or less are considered to be cash equivalents.

**Investments**

State statutes and the District's investment policies authorize the District to invest (short-term and long-term) in fully secured certificates of deposit, eligible investment pools, U.S. Treasury Obligations, U.S. Agency Issues, high-grade secured commercial paper, banker's acceptances, fully collateralized repurchase agreements and certain stock and bond funds.

Generally, short-term investments are stated at cost or amortized cost and long-term investments are reported at fair value. The District records any unrealized gains or losses on the long-term securities as non-operating revenues.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2011

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Inventory**

Inventory consists of pipes, supplies, and other items used in the District's construction projects and system maintenance. These inventories are valued using the cost method and are reported under the consumption method whereby inventory is expensed or capitalized (as a construction cost) when utilized.

**Capital Assets**

Capital assets, when purchased or constructed, are recorded at cost or estimated historical cost based on the corresponding asset class.

The capital asset accounts include all of the District's assets including public domain (infrastructure) assets such as the dam, canals, etc. which only have value to the District, and assets acquired through capital leases. Assets acquired through contributions are capitalized and recorded as capital assets and capital contributions (revenue) at estimated fair value at the date of donation

It is the policy of the District to capitalize certain interest costs on revenue bonds and commercial paper associated with newly constructed asset additions. The applicable interest costs are reflected in the capitalized value of the assets constructed.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized but are charged to operating expense. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated over the estimated useful lives of the assets using the straight-line method. Estimated useful lives, in years, for capital assets are as follows:

Building	15 - 50
Machinery and equipment	7 - 30
Automobiles and trucks	5 - 10
Furniture and fixtures	3 - 30
Fencing	30
Communication equipment	10
Miscellaneous	3-30

**Compensated Absences**

The District allows employees to accumulate vacation and sick leave within certain limitations. Pursuant to GASB pronouncements, the District does not record as expense non-vested sick leave. The accrued vacation payable at December 31, 2011 was immaterial and therefore was not recorded at year-end.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Net Assets**

Net assets are reported as (1) Invested in capital assets net of related debt; (2) restricted for debt service, construction, and contingencies, and (3) unrestricted.

**Revenue**

Revenues are recognized as earned and generally result from providing water to customers. Revenues resulting from other transactions are reported as non-operating revenues.

**Risk Management**

The District provides for potential losses due to insurable risks primarily through the purchase of commercial liability insurance. Such insurance covers risk areas such as losses related to property damage or theft and bonding of the Board of Directors.

**Note 3 - Deposits and Investments**

**Deposits**

At December 31, 2011, the carrying amount of the District's cash on deposit was \$1,535,799 and the bank balance was \$1,560,108. The District's cash deposits at December 31, 2011 and during the year then ended were entirely covered by FDIC insurance and/or pledged collateral held by the District's pledging financial institution, as required by its investment policy and the Public Funds Investment Act.

Restricted cash consists of the proceeds from the issuance of contract revenue notes. These funds are restricted for the purpose of improvements to the water system. The total amount of restricted cash at December 31, 2011 was \$4,306,714. }

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**Note 4 - Accounts Receivable**

Accounts receivable consist of fixed water assessments of \$109,319 due as of December 31, 2011. A provision for estimated uncollectible accounts on these assessments in the amount of \$29,000 has been provided.

**Note 5 - Settlement Receivable**

In November 2007, BMA entered into a settlement agreement with Bexar Metropolitan Water District (Bexar-Met) whereby BMA agrees to release claims against Bexar-Met in exchange for various consideration. Part of this consideration included a cash payment of \$383,826 paid on November 15, 2007 and \$522,480 to be paid in annual installments of \$104,496 beginning July 10, 2008. The present value of this receivable at December 31, 2011 was \$73,272 using a discount rate of 5.5%. The future collections of this receivable are as follows:

July 2012 \$ 73,272

**Note 6 - Capital Asset Activity**

The following is a summary of the change in the capital asset accounts for the year ended December 31, 2011:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Land and easements	\$ 194,451	\$ -	\$ -	\$ 194,451
Buildings	170,245	-	-	170,245
Water system	3,596,125	-	-	3,596,125
Machinery and equipment	2,088,962	33,970	-	2,122,932
Vehicles	452,314	70,762	37,346	485,730
Furniture and fixtures	64,600	-	-	64,600
Fencing	22,189	-	-	22,189
Project development	1,487,568	961,469	-	2,449,037
Medina dam project	453,482	2,649,479	-	3,102,961
Water system rehab project	4,302,023	-	-	4,302,023
	<u>12,831,959</u>	<u>3,715,680</u>	<u>(37,346)</u>	<u>16,510,293</u>
Less accumulated depreciation	3,490,266	(342,468)	36,101	3,796,633
	<u>\$ 9,341,693</u>	<u>\$ 3,373,212</u>	<u>\$ (1,245)</u>	<u>\$ 12,713,660</u>

The value of land acquired since 1925 by the District has not been established; therefore, it is not recorded on the books as of December 31, 2011. Property owners deeded the land to the District at the time of creation of the District for the purpose of establishing the system of canals needed to complete the irrigation system. The total number of acres donated to the District has not been determined.

Depreciation expense for the current year was \$342,468.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**Note 7 - Contract Revenue Notes**

On May 4, 2010 the District issued of \$4,500,000 of contract revenue notes. The proceeds of these notes are restricted to the rehabilitation of the water delivery system. The notes are payable from revenue received from the water sales contract with the Bexar Metropolitan Water District.

The following is a summary of these notes as of December 31, 2011:

\$4,500,000 Series 2010 Contract Revenue Notes due in annual installments of \$145,000 to \$335,000 through February 2030; interest is variable from 4.00% to 5.00% and is payable semi-annually	\$ 4,355,000
Less current portion	155,000
	<u>\$ 4,200,000</u>

The annual requirements to amortize the debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 155,000	\$ 192,169	\$ 347,169
2013	160,000	185,869	345,869
2014	165,000	179,369	344,369
2015	175,000	172,569	347,569
2016	180,000	165,469	345,469
2017-2021	1,010,000	710,800	1,720,800
2022-2027	1,260,000	515,990	1,775,990
2028-2030	1,250,000	73,500	1,323,500
	<u>\$ 4,355,000</u>	<u>\$ 2,195,735</u>	<u>\$ 6,550,735</u>

**Note 8 - Water Sales Contracts and Commitments**

The district has entered into a series of agreements with the Bexar Metropolitan Water District (Bexar-Met). These agreements provide for the sale of water from the District's water system to Bexar-Met and for payments by Bexar-Met to the District to ensure future water availability for sale to Bexar-Met. Each agreement is described further in this note. In summary, a 1991 agreement provides for the sale of "excess water" (as determined by the District) at a fixed price on a take-or-pay basis; a 1992 agreement suspends for five years certain provisions of the 1991 agreement delaying the sale of excess water to Bexar-Met, with Bexar-Met making fixed annual payments for maintenance, repairs, and improvements to the District's water system; and a 1995 agreement provides that the District will sell specified amounts of water on a "priority basis" before determining the amount of excess water as defined in the 1991 agreement.



**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**Note 8 - Water Sales Contracts and Commitments (Continued)**

**Long-Term Water Sales Agreement**

The 1991 agreement provides for the sale of excess water from the District's adjudication of 66,000 acre-feet of water per year. The agreement is effective from September 1, 1991, for a period of twenty years with the option to extend the agreement for an additional ten years. Several options to terminate the agreement are available to the District. Bexar-Met may terminate the agreement effective December 31 of the year after Bexar-Met gives proper notice. Implementation of the agreement is subject to approval by the Texas Commission on Environmental Quality (TCEQ). In April 1998, the District's Certificate of Adjudication was amended by the TCEQ to authorize the use of 19,974 acre-feet of its 66,000 acre-foot adjudication for municipal purposes. Excess water is determined at the District's sole discretion. The agreement requires the District to evaluate the availability of excess water at least twice a year in the months of February and August. Bexar-Met agrees to purchase during each contract year all excess water as determined by the District whether or not Bexar-Met takes delivery of the water. The price of the water for the first three contract years shall be \$56.00 for each metered acre-foot, subject to adjustments thereafter. The District is committed to deliver the excess water only by gravity flows to Bexar-Met's designated point of diversion, which is the same as the District's point of diversion in the system.

**1992 Water Conservation Agreement**

In 1992, the District entered into a water conservation agreement with Bexar-Met. The agreement provides that the District will take certain steps to ensure future excess waters, as defined in the water sales agreement, including measures to conserve water in the District's irrigation system. The agreement became effective September 1, 1992, for a period of five years. Bexar-Met paid the District \$300,000 each year that the contract was in effect.

The water conservation agreement required the District to waive its right to declare excess water during the five-year term of the agreement. Bexar-Met will receive credits against future billings for excess water under the water agreement to the extent of 85% of the first year's conservation agreement payments and 100% of future years' payments. Total credits to be given by the District will not exceed \$1,455,000, and the credit applied to future water purchases in any year may not be more than one-fifth of the total credits.

**1995 Water Availability Contract**

In 1995, The District completed an agreement with Bexar-Met to make water available to Bexar-Met on a priority basis up to 6,000 acre-feet of water per year, to the extent water is available in accordance with conditions stated in the 1995 agreement. The potential availability of excess water pursuant to the 1991 agreement is directly reduced on an acre-foot basis.

On each anniversary date, Bexar-Met will pay the District the purchase price for the entire quantity of water deliverable under the 1995 agreement during the twelve months following November 1, 1996. The District is entitled to the entire purchase price for the stated quantity of priority water whether or not Bexar-Met accepts the District's tender of the water.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
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**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**Note 8 - Water Sales Contracts and Commitments (Continued)**

In 1997, the parties amended this contract. In that amendment Bexar-Met agreed to pay \$168,000 for 3,000 acre-feet of water. Bexar-Met can receive the water in the twelve months starting April 1, 1998.

**1999 Agreement**

In November 1999 the District entered into an agreement with Bexar-Met that merges and integrates the prior agreements. Per the 1999 agreement, the District will deliver 10,000 acre feet of priority water to Bexar-Met annually on a take or pay basis at \$69 per acre foot. This amount is to be paid in equal monthly installments of \$57,500 beginning December 1999.

Bexar-Met will provide \$500,000 per year toward the federal matching fund obligation per the P.L. 83-566 project to rehabilitate the water delivery system. These payments will begin in 2001 and run through 2010. In consideration for Bexar-Met's funding of the annual matching project, the District shall annually convert 1,000 acre feet out of the 19,974 acre feet of water allocated for municipal use under the Certificate of Adjudication 19-2130 for purchase by Bexar-Met on a priority basis until the balance of the 19,974 acre feet of water is allocated to Bexar-Met.

This agreement was amended in June, 2000 whereby Bexar-Met contractually agreed to provide in-kind payment or perform creditable activity in an amount not less than \$500,000 per year toward the federal matching fund obligation for the years 2001 through 2010.

**2007 Agreement**

In November 2007, BMA and Bexar-Met entered into an agreement that replaced and superceded all prior agreements. Under this agreement, BMA agreed to supply untreated water from Medina Lake to Bexar-Met for Bexar-Met's municipal purposes. The amount of water supplied shall not exceed 19,974 acre-feet per calendar year. The price for the water is \$69 per acre-foot through the end of calendar year 2012. BMA is entitled to adjust the per acre-foot charge at the commencement of each calendar year beginning January 1, 2013.

The terms of this agreement shall commence in January 1, 2008 and continue until December 31, 2049.

**Note 9 - Commitments**

Federal and state regulations require that modifications be made to the Medina dam abutments. The current estimate of the cost of these modifications is \$4 million dollars. The project is being funded with a grant from the state of Texas through the Texas Water Development Board. The project is administered by the San Antonio River Authority.

**Note 10 - Concentrations**

The District derived approximately seventy-four percent of its income for the year ended December 31, 2011 from the water sales contracts with the Bexar Metropolitan Water District. See note 8 for details of these contracts.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**Note 11 - Pension Plan**

The District provides pension benefits for all of its full-time employees through the Texas County and District Retirement System (TCDRS). The plan is a variable-rate plan type and is one of 586 such plans administered by TCDRS.

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing the TCDRS and within the actuarial constraints also in the statutes. Plan provisions for the District are as follows:

Number of participating subdivisions	618
Years required for vesting and retirement at age 60	10
Rule of ___ for retirement eligibility	80
Service years for retirement at any age	30
Partial lump-sum option	No
Contribution rate for employer	9.65%
Contribution rate for employees	7.00%
Regular employer contribution rate	n/a
Supplemental employer contribution rate	n/a
Elected rate in effect	No
Supplemental rate in effect	n/a
Unfunded actuarial accrued liability	\$108,016

Pension costs for the year ended December 31, 2011 were \$58,497.

The required annual contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2010 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4 percent. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

As of December 31, 2010, the most recent actuarial valuation date, the plan was 74.98 percent funded. The actuarial accrued liability of benefits was \$431,729, and the actuarial value of assets was \$323,713, resulting in an unfunded actuarial accrued liability (UAAL) of \$108,016. The covered payroll (annual payroll of active employees covered by the plan) was \$768,898, and the ratio of all UALL to the covered payroll was 14.5 percent.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN RETAINED EARNINGS - BUDGET AND ACTUAL**

Year Ended December 31, 2011

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance - Favorable (Unfavorable)
Revenues from operations:					
<u>Municipal water sales</u>	\$ 1,378,206	\$ -	1,378,206	\$ 1,378,206	\$ -
Fixed water assessments	352,381	3,538	355,919	367,523	(11,604)
<u>Irrigation water sales</u>	456,297	-	456,297	209,600	246,697
	<u>2,186,884</u>	<u>3,538</u>	<u>2,190,422</u>	<u>1,955,329</u>	<u>235,093</u>
Operating expenses:					
Directors fees	12,654	-	12,654	12,600	(54)
Payroll	632,657	274,793	907,450	779,656	(127,794)
Retirement	58,497	18,944	77,441	59,539	(17,902)
<u>Professional fees</u>	163,988	-	163,988	187,950	23,962
Contracted services	16,051	-	16,051	15,000	(1,051)
Maintenance and repairs	40,688	-	40,688	49,740	9,052
Insurance	143,120	48,244	191,364	194,843	3,479
Depreciation	300,860	(300,860)	-	-	-
Amortization	23,290	(23,290)	-	-	-
Telephone	9,532	-	9,532	12,000	2,468
Utilities	7,824	-	7,824	9,000	1,176
Fuel and lubricants	136,464	-	136,464	160,000	23,536
Water master fee	29,674	-	29,674	28,422	(1,252)
Materials	121,373	338,954	460,327	130,500	(329,827)
Project and equipment costs	-	3,200,368	3,200,368	850,000	(2,350,368)
Supplies	12,550	-	12,550	12,000	(550)
Uniforms	8,999	-	8,999	9,500	501
Employee recognition	9,042	-	9,042	4,000	(5,042)
Postage	8,288	-	8,288	8,000	(288)
Legal notices & recording fees	6,510	-	6,510	5,000	(1,510)
Taxes - payroll	48,010	21,022	69,032	73,876	4,844
Dues and subscriptions	7,628	-	7,628	6,000	(1,628)
Travel	2,812	-	2,812	1,000	(1,812)
Other	-	-	-	3,500	3,500
	<u>1,800,511</u>	<u>3,578,175</u>	<u>5,378,686</u>	<u>2,612,126</u>	<u>(2,766,560)</u>
Income (loss) from operations	<u>386,373</u>	<u>(3,574,637)</u>	<u>(3,188,264)</u>	<u>(656,797)</u>	<u>(2,531,467)</u>
Nonoperating revenues (expenses):					
Grant revenue	2,650,979	-	2,650,979	-	2,650,979
<u>Land inclusion</u>	287,758	-	287,758	289,167	(1,409)
Bexar-Met	184,671	-	184,671	-	184,671
Other	108,896	-	108,896	87,799	21,097
Interest	45,404	13,232	58,636	23,000	35,636
Debt service	(185,605)	(157,564)	(343,169)	(343,169)	-
	<u>3,092,103</u>	<u>(144,332)</u>	<u>2,947,771</u>	<u>56,797</u>	<u>2,890,974</u>
Excess of rev over exp	<u>3,478,476</u>	<u>(3,718,969)</u>	<u>(240,493)</u>	<u>(600,000)</u>	<u>359,507</u>
Net assets beginning of year	11,217,728	-	11,217,728	11,217,728	-
Net assets end of year	<u>\$ 14,696,204</u>	<u>\$ (3,718,969)</u>	<u>\$ 10,977,235</u>	<u>\$ 10,617,728</u>	<u>\$ 359,507</u>

See independent auditor's report and accompanying notes to financial statements.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS**  
**December 31, 2011**

Actuarial Valuation Date	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
Actuarial Value of Assets	\$138,071	\$229,163	\$323,713
Actuarial Accrued Liability	\$195,752	\$355,869	\$431,729
Percentage Funded	70.53%	64.40%	74.98%
Unfunded (Over-funded) Actuarial Accrued Liability	\$57,681	\$126,706	\$108,016
Annual Covered Payroll	\$641,779	\$702,647	\$768,898
UAAL as a Percentage of Covered Payroll	8.99%	18.03%	14.05%

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF ACTUARIAL LIABILITIES AND  
FUNDING PROGRESS - (Continued)**

December 31, 2011

**Actuarial Assumptions**

Actuarial Cost Method -	Entry age
Amortization Method -	Level percentage of payroll, closed
Amortization period in years	20
Asset Valuation Method -	SAF: 10-yr smoothed value; ESF: Fund Value
Investment return - includes inflation at the stated rate	8.00%
Projected Salary Increases	5.40%
Inflation	3.50%
Cost-of-Living Adjustments	0.00%

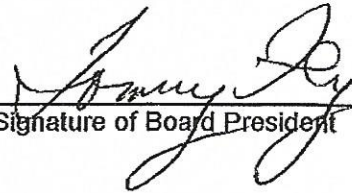
**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**CERTIFICATE OF THE BOARD OF DIRECTORS**

We, the undersigned, do hereby certify that the audit report of the above named Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 for the year ended December 31, 2011, was reviewed and approved at a meeting of the Board of Directors of the District on the 9th day of April, 2012.



\_\_\_\_\_  
Signature of Board Secretary



\_\_\_\_\_  
Signature of Board President