

**Bexar-Medina-Atascosa Counties
Water Control and Improvement
District No. 1**

**Financial Statements and
Other Financial Information**

*Years Ended December 31, 1995 and 1994
with Report of Independent Auditors*

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Financial Statements and
Other Financial Information

Years Ended December 31, 1995 and 1994

Contents

Report of Independent Auditors	1
Financial Statements	
Balance Sheets	2
Statements of Revenues, Expenses, and Changes in Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Other Financial Information	
Report of Independent Auditors on Other Financial Information	12
Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis)	13

Report of Independent Auditors

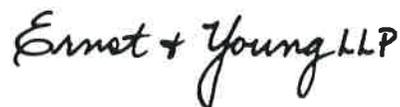
Board of Directors
Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

We have audited the accompanying balance sheets of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 as of December 31, 1995 and 1994, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 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 audits provide a reasonable basis for our opinion.

As more fully described in Note 7 to the financial statements, the District has not determined the quantity and value of land donated for completion of the irrigation system during the original construction period. The District's records do not permit the application of alternative procedures regarding the value of such land at the time of donation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 for the years ended December 31, 1995 and 1994 and, except for the effects of such adjustments, if any, to the carrying amounts of land and equity in the system as might have been determined to be necessary had we been able to examine the land records as discussed in the preceding paragraph, its financial position at December 31, 1995 and 1994, in conformity with generally accepted accounting principles.



April 5, 1996

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Balance Sheets

	December 31	
	1995	1994
Assets		
Current assets:		
Cash and cash equivalents <i>(Notes 3 and 5)</i>	\$ 386,554	\$ 151,674
Accounts receivable <i>(Note 4)</i>	90,203	82,783
Interest receivable	8,029	3,351
Prepaid expenses	5,227	9,735
Total current assets	490,013	247,543
Restricted assets:		
Cash <i>(Notes 3 and 8)</i>	-	178,980
Total restricted assets	-	178,980
Property, plant, and equipment <i>(Notes 6 and 7)</i> :		
Land, easements, and rights-of-way	11,251	11,251
Buildings	160,190	115,690
Water system	2,778,419	2,778,419
Machinery and equipment	693,452	639,452
Automobiles and trucks	103,861	96,987
Furniture and fixtures	29,145	26,194
Fencing	11,282	3,761
Miscellaneous accessories	134,729	73,093
Communications equipment	30,592	28,074
	3,952,921	3,772,921
Less allowances for depreciation	907,301	822,959
	3,045,620	2,949,962
Total assets	\$ 3,535,633	\$ 3,376,485

	December 31	
	1995	1994
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 104,228	\$ 370,712
Interest payable	7,166	924
Deferred revenue	63,289	75,303
Note payable (<i>Note 5</i>)	150,000	195,000
Current portion of lease obligations (<i>Note 6</i>)	71,601	54,502
Total current liabilities	<u>396,284</u>	<u>696,441</u>
Deferred credit (<i>Note 8</i>)	—	238,019
Capital lease obligations (net of current portion) (<i>Note 6</i>)	93,661	110,727
Equity:		
Contributed capital (<i>Note 8</i>)	221,436	134,809
Retained earnings	2,824,252	2,196,489
Total equity	<u>3,045,688</u>	<u>2,331,298</u>
Total liabilities and equity	<u><u>\$ 3,535,633</u></u>	<u><u>\$ 3,376,485</u></u>

See accompanying notes.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Statements of Revenues, Expenses, and Changes in Retained Earnings

	Year Ended December 31	
	1995	1994
Revenues from operations:		
Fixed water assessments	\$ 337,063	\$ 338,165
Irrigation water sales	197,620	163,288
Intergovernmental (<i>Note 8</i>)	941,393	291,740
Rent and royalty income	6,795	7,951
Penalties and interest	12,685	7,903
Texas Water Development Board Grants	687,379	13,200
	2,182,935	822,247
Operating expenses:		
Payroll expense	350,233	365,219
Professional fees	907,280	309,212
Repair and maintenance of system	62,518	82,601
Consumable supplies and materials	27,811	41,344
General and administrative expenses	123,865	109,447
Depreciation expense	84,282	72,308
	1,555,989	980,131
Operating income (loss)	626,946	(157,884)
Nonoperating revenues:		
Interest on temporary investments	15,263	13,242
Miscellaneous	6,304	4,521
	21,567	17,763
Nonoperating expenses:		
Interest on notes payable and leases	20,750	24,070
Net income (loss)	627,763	(164,191)
Retained earnings at beginning of year	2,196,489	2,360,680
Retained earnings at end of year	\$ 2,824,252	\$ 2,196,489

See accompanying notes.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Statements of Cash Flows

	Year Ended December 31	
	1995	1994
Operating Activities		
Operating income (loss)	\$ 626,946	\$(157,884)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	84,282	72,308
Changes in operating assets and liabilities:		
Increase in accounts receivable	(12,098)	(8,024)
Decrease (increase) in prepaid expenses	4,508	(3,200)
Increase (decrease) in accounts payable	(260,242)	42,784
Increase (decrease) in deferred revenue	(12,014)	3,397
Other cash provided	6,304	4,520
Noncash revenue from conservation agreement	(451,393)	(189,140)
Net cash used in operating activities	(13,707)	(235,239)
Noncapital Financing Activities		
Proceeds from borrowings	-	50,000
Principal payments on notes payable	(45,000)	(30,000)
Proceeds from conservation agreement	300,000	300,000
Interest paid on notes payable	(6,492)	(11,515)
Net cash provided by noncapital financing activities	248,508	308,485
Capital and Related Financing Activities		
Acquisition of capital assets	(127,503)	(70,062)
Principal payments on capital lease	(53,967)	(57,714)
Interest paid on capital lease	(8,016)	(14,426)
Net cash used in capital and related financing activities	(189,486)	(142,202)
Investing Activities		
Interest on certificate of deposit	10,585	12,445
Net cash provided by investing activities	10,585	12,445
Increase (decrease) in cash and cash equivalents	55,900	(56,511)
Cash and cash equivalents at beginning of year	330,654	387,165
Cash and cash equivalents at end of year	\$ 386,554	\$ 330,654

Noncash Capital and Related Financing Activities

In 1995, the District acquired equipment valued at \$54,000 by entering into a capital lease agreement. Additional plant and equipment in the amounts of \$86,627 for 1995 and \$47,596 for 1994 were acquired from deferred credits resulting from the agreements described in Note 8.

See accompanying notes.

Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1

Notes to Financial Statements

December 31, 1995 and 1994

1. Financial Reporting Entity

Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (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 and Chapters 50 and 51 of the Texas Water Code. The District was reorganized as a municipal corporation or Irrigation District on February 8, 1925.

The District is under full control and management of a five-member Board of Directors. Members are elected by the public. For financial reporting purposes, the District includes all funds that are controlled by, or dependent upon, actions of the Board of Directors. Control by, or dependence upon, the Board was determined on the basis of the Board's full control of budget adoption, taxing authority, and authority to acquire assets and incur debt in its own behalf.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operation; thus, data from these units would be combined with data of the primary government. Discretely presented component units, on the other hand, would be reported in a separate column in the combined financial statements to emphasize that they could be legally separate from the government. There are no legally separate organizations that meet the aforementioned criteria; therefore, none are included in the accompanying general purpose financial statements.

2. Significant Accounting Policies

Revenue and Expense Recognition

The District accounts for its activities using generally accepted accounting principles for governmental enterprise funds. It uses the accrual basis of accounting. Revenue is recognized when earned, and expenses are accrued when goods or services are received.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Notes to Financial Statements (continued)

December 31, 1995 and 1994

2. Significant Accounting Policies (continued)

Provision has been made in the financial statements for losses arising from uncollectible amounts. Fixed water assessments received in advance of the year for which they were assessed are recorded as deferred revenue when received and as income in the year for which assessed.

Property, Plant, and Equipment

Property, plant, and equipment is carried at cost. The value of certain donated assets has not been recorded (see Note 7).

The District provides for depreciation of plant and equipment at amounts calculated to amortize the cost, less any estimated salvage value of the assets, over their estimated useful lives using straight-line rates. Expenditures for maintenance and repairs are charged to expenses; renewals and betterments are capitalized.

Cash Equivalents

Cash equivalents consist of certificates of deposit with maturities of one year or less.

Budgeting

An annual operating budget for the District is adopted by the Board of Directors as a management tool and to meet contractual obligations. Monthly budget reports are prepared for the Board to maintain proper budgetary control.

3. Deposits With Financial Institutions

Deposits and certificates of deposit at year-end were entirely covered by federal depository insurance and by collateral held by a bank other than the depository bank in the District's name. State statutes limit the types of investments the District may make. Legal investments are generally limited to direct obligations of the United States of America and certain of its agencies, and to obligations of state and local governmental instrumentalities in the United States. The District invests primarily in certificates of deposit.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Notes to Financial Statements (continued)

December 31, 1995 and 1994

4. Accounts Receivable

Accounts receivable consist of fixed water assessments of \$104,703 and \$97,283 at December 31, 1995 and 1994, respectively. Fixed water assessments are levied January 1 of each year to provide for the maintenance and operation of the system. A provision for estimated uncollectible accounts on these assessments has been provided in the amount of \$14,500 for 1995 and 1994.

5. Note Payable

The note payable outstanding is summarized as follows:

	1995	1994
Note payable dated March 22, 1989, payable to depository bank, last renewed May 8, 1995 with annual interest rate of 7.35% with certificate of deposit as collateral	\$ 150,000	\$ 195,000

6. Capital Lease Obligations

The District has capital lease obligations for \$165,262 as of December 31, 1995. The obligations are collateralized by the equipment leased.

Future minimum payments, by year and in the aggregate, under the capital lease consist of the following at December 31, 1995:

	Capital Lease
1996	\$ 68,339
1997	71,129
1998	13,959
1999	13,959
2000	6,979
Total minimum lease payments	174,365
Less amount representing interest	9,103
Present value of net minimum lease payments	165,262
Less current portion	71,601
Noncurrent portion	\$ 93,661

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Notes to Financial Statements (continued)

December 31, 1995 and 1994

7. Accounting for Donated Assets

The value of land donated to the District has not been established; therefore, it is not included in the balance sheets. The land was deeded to the District by property owners 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.

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.

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 notices. Implementation of the agreement is subject to approval by the Texas Natural Resource Conservation Commission (TNRCC). In February 1995, the District's Certificates of Adjudication were amended by the TNRCC to authorize dual use of its water for both irrigation and municipal purposes.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Notes to Financial Statements (continued)

December 31, 1995 and 1994

8. Water Sales Contracts and Commitments (continued)

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 term contract years shall be \$56.00 for each metered acre-foot, subject to adjustments thereafter and for water resold by the District. The District is committed to deliver the excess water only by gravity flows to Bexar-Met's designated point of diversion from the District's system.

1992 Water Conservation Agreement

In 1992, the District entered into a water conservation agreement with Bexar-Met as a result of the water sales agreement. 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 will pay the District \$300,000 each year that the contract is in effect.

This water conservation agreement requires 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 sales agreement to the extent of 85% of the first year's conservation agreement payment 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.

The District may use the payments from the conservation agreement for only certain purposes, which may be for expenses relating to conservation or for capital improvements that ensure conservation of water. Any unearned amount will be held by the District as restricted cash until earned. The District records a deferred credit for the annual conservation agreement payments. It recognizes intergovernmental revenues from the conservation agreement to the extent it incurs expenses allowable under the agreement.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Notes to Financial Statements (continued)

December 31, 1995 and 1994

8. Water Sales Contracts and Commitments (continued)

Intergovernmental revenues include \$451,393 for 1995 and \$189,140 for 1994 from the conservation agreement. To the extent the District expends agreement proceeds for capital improvements, it recognizes capital contributions, which totaled \$86,627 in 1995 and \$47,596 in 1994. Upon recognition of these revenues and capital contributions, the District reduces the deferred credit.

1995 Water Availability Contract

In 1995, the District completed an agreement with Bexar-Met to make additional water available to Bexar-Met. The parties agreed that, in addition to other water deliverable to Bexar-Met as excess water pursuant to the 1991 agreement, the District would deliver 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. For the first year, Bexar-Met will pay \$168,000, based on 3,000 acre-feet at \$56.00 an acre-foot.

In consideration of the District's obligation to ensure the phased-in delivery to Bexar-Met of 6,000 acre-feet of water annually on a priority basis rather than on an excess water basis, Bexar-Met paid the District \$500,000, which has been recognized as intergovernmental revenue in 1995.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Directors
Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

The audited financial statements for the years ended December 31, 1995 and 1994 of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1, and our report thereon are presented in the preceding section of this report. The following financial information is presented for purposes of additional analysis and is not a required part of the financial statements of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

April 5, 1996

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Schedule of Revenues and Expenses –
Budget and Actual (Non-GAAP Budgetary Basis)

December 31, 1995

	<u>Actual</u>	<u>Budget</u>	Variance – Favorable (Unfavorable)
Revenues			
Fixed water assessments	\$ 337,063	\$ 337,860	\$ (797)
Irrigation water sales	197,620	312,000	(114,380)
Intergovernmental, including capital contributions	1,028,020	469,007	559,013
Rent and royalty income	6,795	7,500	(705)
Penalties and interest	12,685	–	12,685
Interest income	15,263	9,400	5,863
Miscellaneous	6,304	5,000	1,304
Texas Water Development Board Grants	687,379	–	687,379
	<u>2,291,129</u>	<u>\$ 1,140,767</u>	<u>\$ 1,150,362</u>
Reconciliation to revenues from operations in the statement of revenues, expenses, and changes in retained earnings:			
Deduct capital contributions	(86,627)		
Deduct nonoperating revenues	(21,567)		
Total revenues from operations	<u>\$ 2,182,935</u>		
Expenses			
Director fees	\$ 9,600	\$ 9,600	\$ –
Salaries and wages	318,212	319,000	788
Social Security and Medicare expense	24,152	24,420	268
Texas Employment Commission	743	3,170	2,427
Workers' Compensation Insurance	43,289	55,452	12,163
Legal fees	397,266	100,000	(297,266)

(continued)

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1

Schedule of Revenues and Expenses –
Budget and Actual (Non-GAAP Budgetary Basis) (continued)

December 31, 1995

	Actual	Budget	Variance – Favorable (Unfavorable)
Expenses (continued)			
Audit fees	\$ 14,250	\$ 15,000	\$ 750
Surveyor fees	75,564	15,000	(60,564)
Engineering fees	420,200	50,000	(370,200)
Maintenance and repairs	32,209	60,000	27,791
M&R – materials	30,309	25,000	(5,309)
Legal notices and publications	1,389	3,000	1,611
Printing and office supplies	6,718	5,500	(1,218)
Fuel and lubricants	21,093	30,000	8,907
Postage	2,921	2,500	(421)
Telephone	7,717	5,000	(2,717)
Utilities	5,735	6,000	265
General insurance and surety bonds	25,325	27,500	2,175
Reimbursement for vehicle expense	6,003	6,000	(3)
Rents, leases, and space	1,329	1,500	171
Miscellaneous expense	27,683	20,130	(7,553)
Debt service payments	65,750	29,325	(36,425)
Capital outlay	180,037	62,364	(117,673)
	1,717,494	\$ 875,461	\$(842,033)
 Reconciliation to operating expenses in the statement of revenues, expenses, and changes in retained earnings:			
Add depreciation expense	84,282		
Deduct:			
Debt principal payments	(45,000)		
Capital outlay	(180,037)		
Nonoperating expenses	(20,750)		
Total operating expenses	\$ 1,555,989		

