

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2006

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	3
Management's Discussion and Analysis	4
Statement of Net Assets	8
Statement of Activities	9
Statement of Cash Flows	10
Notes to Financial Statements	11
Required Supplementary Information:	
Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual	20
Certificate of the Board of Directors	21



Independent Auditor's Report

March 17, 2007

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 Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (the District) as of and for the year ended December 31, 2006, 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 5 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 5, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 as of December 31, 2006, and the changes in financial position and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 4 through 7 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

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, 2006

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, 2006. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities at the close of the year ending December 31, 2006 by \$5,543,854. Of this amount, \$1,253,665 (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 \$571,116 for the year ended December 31, 2006.

The District's total debt decreased by \$534,017 during the year ending December 31, 2006.

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.

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.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**
MANAGEMENTS DISCUSSION AND ANALYSIS (Continued)
Year ended December 31, 2006

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 \$6,543,854 as of December 31, 2006. By far the largest portion of the District's net assets (81 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>2005</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 1,703,040	\$ 1,466,679	\$ (236,361)
Capital assets	6,817,369	7,063,220	245,851
Total assets	<u>8,520,409</u>	<u>8,529,899</u>	<u>9,490</u>
Current liabilities	655,345	616,045	(39,300)
Long-term liabilities	1,892,326	1,370,000	(522,326)
Total liabilities	<u>2,547,671</u>	<u>1,986,045</u>	<u>(561,626)</u>
Net assets:			
Invested in capital assets, net of related debt	4,508,352	5,288,220	779,868
Restricted	2,969	1,969	(1,000)
Unrestricted	1,461,417	1,253,665	(207,752)
Total net assets	<u>\$ 5,972,738</u>	<u>\$ 6,543,854</u>	<u>\$ 571,116</u>

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year ended September 30, 2006

THE DISTRICT'S FUNDS

Table 1 below presents a summary of revenues for 2006 and 2005 and the amount of change in relation to the prior year.

Table 1 - Revenues

	2005	2006	Increase (Decrease)
Fixed water assessments	\$ 353,605	\$ 355,176	\$ 1,571
Irrigation water sales	190,741	328,601	137,860
Land inclusion	54,537	-	(54,537)
Rental income	35,881	93,492	57,611
Tecon water sales	35,105	600	(34,505)
Bexar-Met contract	1,399,500	1,468,500	69,000
Legal settlement	720,765	-	(720,765)
Investment earnings	88,777	69,435	(19,342)
Other	54,413	36,356	(18,057)
	<u>\$ 2,933,324</u>	<u>\$ 2,352,160</u>	<u>\$ 581,164</u>

The increase in fixed water assessments was due to an increase in the number of land owners and amount of land in the district for 2006.

The increase in irrigation water sales was due to less rainfall in 2006, which increased the need for irrigation.

The Table 2 below represents a summary of expenses for 2006 and 2005 and the amount of change in relation to the prior year.

Table 2 - Expenses

	2005	2006	Increase (Decrease)
Payroll	\$ 563,961	\$ 602,498	\$ 38,537
Professional fees	260,240	106,350	(153,890)
Contracted services	78,914	55,510	(23,404)
Maintenance and repairs	35,968	21,049	(14,919)
Insurance	151,498	173,436	21,938
Materials	37,170	121,021	83,851
Taxes	43,647	53,883	10,236
Operations	578,954	543,602	(35,352)
Interest	134,668	103,695	(30,973)
	<u>\$ 1,885,020</u>	<u>\$ 1,781,044</u>	<u>\$ (103,976)</u>

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended September 30, 2006

Final Budget versus Actual Results

The District reported overall revenues of \$2,373,862 versus the budget estimate of \$2,162,967 for a positive variance of \$210,895.

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, 2006

ASSETS

	<u>Business-type Activities</u>
Current asset:	
Cash	\$ 1,229,841
Accounts receivable:	
Fixed water assessments - net	96,889
Accrued interest	24,093
Prepaid expenses	79,387
Total current assets	<u>1,430,210</u>
Property, plant and equipment	7,063,220
Restricted assets:	
Cash and cash equivalents	1,969
Deferred charge - debt issue costs - net	34,500
	<u>7,099,689</u>
	<u>8,529,899</u>

LIABILITIES

Current liabilities:	
Accounts payable	39,190
Deferred revenue	120,972
Accrued liabilities	50,883
Current portion of contract revenue notes	405,000
Total current liabilities	<u>616,045</u>
Contract revenue notes	<u>1,370,000</u>
Total liabilities	<u>1,986,045</u>

NET ASSETS

Invested in capital assets, net of related debt	5,288,220
Restricted for construction	1,969
Unrestricted	1,253,665
	<u>\$ 6,543,854</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, 2006**

	Business-type Activities
Revenues from operations:	
Fixed water assessments	\$ 355,176
Irrigation water sales	328,601
Land inclusion	-
Rental income	93,492
Tecon water sales	600
Other	36,356
	<u>814,225</u>
Operating expenses:	
Directors fees	12,600
Payroll	602,498
Professional fees	106,350
Contracted services	55,510
Maintenance and repairs	21,049
Insurance	173,436
Depreciation	345,277
Amortization	9,000
Telephone	10,428
Utilities	8,649
Fuel and lubricants	87,267
Water master fee	25,673
Materials	121,021
Supplies	7,816
Uniforms	5,965
Election costs	9,505
Postage	3,475
Legal notices & recording fees	8,297
Taxes - payroll	53,883
Dues and subscriptions	3,222
Travel	484
Other	5,944
	<u>1,677,349</u>
Loss from operations	<u>(863,124)</u>
Nonoperating revenues (expenses):	
Bexar-Met contract	1,468,500
Interest and dividend income	69,435
Interest expense	(103,695)
	<u>1,434,240</u>
Change in net assets	571,116
Net assets at beginning of year	5,972,738
Net assets at end of year	<u>\$ 6,543,854</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, 2006

Operating activities:	
Receipts from Customers	\$ 839,466
Cash payments to suppliers of goods and services	(820,115)
Cash payments to employees	(600,804)
Net cash used in operating activities	<u>(581,453)</u>
Noncapital financing activities:	
Proceeds from Bexar-Met	1,468,500
Net cash provided by noncapital financing activities	<u>1,468,500</u>
Capital and related financing activities:	
Purchase of property, plant and equipment	(566,267)
Payments on long-term debt	(154,017)
Payments on contract revenue notes	(380,000)
Interest on long-term debt	(4,701)
Interest on contract revenue notes	(107,514)
Net cash used in capital and related financing activities	<u>(1,212,499)</u>
Investing activities:	
Interest income	54,094
Net cash provided by investing activities	<u>54,094</u>
Decrease in cash and cash equivalents	(271,358)
Cash and cash equivalents at beginning of year	1,501,199
Cash and cash equivalents at end of year	<u>\$ 1,229,841</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (863,124)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	345,277
Amortization	9,000
(Increase) decrease in operating asset items:	
Accounts receivable:	
Fixed water assessments - net	21,702
Other	2,432
Prepaid expenses	(53,790)
Accrued interest	(15,341)
Increase (decrease) in operating liability items:	
Accounts payable	(26,916)
Deferred revenue	1,107
Accrued liabilities	(1,800)
Net cash used in operating activities	<u>\$ (581,453)</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, 2006**

Note 1 - Summary of Significant Accounting Policies

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 under full control of a seven member Board of Directors. Board members are elected by the landowners of the District to serve a four year term.

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to its operations.

Generally accepted accounting principles require that the financial statements of the District include those of separately administered organizations for which the District is financially accountable. Financial accountability is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

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

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 activities of the primary government. For the most part, the effect of Interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 WARER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**
NOTES TO FINANCIAL STATEMENTS
 December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As a general rule the effect of inter-fund activity has been eliminated from the financial statements. This includes inter-fund receivables and payables and the "doubling-up" effect of internal service fund activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting - The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts that include its assets, liabilities, fund equity, revenues, and expenditures or expenses. The following funds are used by the District:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

Basis of Accounting - The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenue when earned. Expenses are recorded when incurred.

Budgets and Budgetary Accounting - An annual operating budget 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.

It is the District's policy to prepare the annual budget on the cash basis of accounting.

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

Property, Plant and Equipment - Property, plant and equipment are stated at historical costs. Donated fixed assets are stated at their fair value on the date donated. The District provides for depreciation over the estimated useful lives of the assets using the straight-line method. Estimated useful lives, in years, for depreciable 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

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2006 was immaterial and therefore was not recorded at year-end.

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.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Deposits (cash and certificates of deposit) are carried at cost, which approximates market value. The District's deposits are categorized to give an indication of the level of risk assumed by the District at year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized.

Deposits, categorized by level of risk, are as follows:

	Bank Balance	Category			Carrying Amount	Total
		1	2	3		
Cash and cash equivalents	\$ 348,955	\$ 348,955	\$ -	\$ -	\$ 345,706	\$ 345,706
Certificates of deposit	884,135	884,135	-	-	884,135	884,135
	<u>\$1,233,090</u>	<u>\$ 1,233,090</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,229,841</u>	<u>\$1,229,841</u>

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

Note 3 - Restricted Assets

Certain assets are restricted for construction funded through contract revenue notes.

Note 4 - Accounts Receivable

Accounts receivable consist of fixed water assessments of \$125,889 due as of December 31, 2006. A provision for estimated uncollectible accounts on these assessments in the amount of \$29,000 has been provided.

Note 5 - Property, Plant and Equipment

Property, plant and equipment is carried at cost, if purchased, or fair market value at the date of acquisition, if received as a donation. Depreciation is computed using the straight-line method over the asset's estimated service lives. Depreciation expense for the year ended December 31, 2006 totaled \$345,277.

The following is a summary of the change in the fixed asset accounts for the year ended December 31, 2006:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Land and easements	\$ 194,451	\$ -	\$ -	\$ 194,451
Buildings	170,245	-	-	170,245
Water system	3,229,428	-	-	3,229,428
Machinery and equipment	1,328,761	57,691	-	1,386,452
Vehicles	318,628	82,586	32,111	369,103
Furniture and fixtures	39,609	2,676	-	42,285
Fencing	22,189	-	-	22,189
Project development	385,356	-	-	385,356
Medina dam stabilization project	51,880	75,976	-	127,856
Water system rehab project	3,199,190	373,927	-	3,573,117
	<u>8,939,737</u>	<u>592,856</u>	<u>32,111</u>	<u>9,500,482</u>
Less accumulated depreciation	2,122,368	345,277	30,383	2,437,262
	<u>\$ 6,817,369</u>	<u>\$ 247,579</u>	<u>\$ (1,728)</u>	<u>\$ 7,063,220</u>

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND
IMPROVEMENT DISTRICT NO.1**
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 5 - Property, Plant and Equipment (Continued)

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, 2006. 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.

Note 6 - Long-Term Debt

As of December 31, 2005, the District had a note payable bearing interest at the rate of 5.25% that was to mature in 2009. This note was secured by equipment and the balance was \$154,017. The District paid this note off during the year ended December 31, 2006.

Note 7 - Contract Revenue Notes

On October 7, 2000 the Board of Directors approved a resolution authorizing the issuance of \$3,765,000 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, 2006:

\$3,765,000 Series 2000 Contract Revenue Notes due in annual installments of \$300,000 to \$485,000 through February, 2010; interest is variable from 4.81% to 5.56% and is payable semi-annually	\$ 1,775,000
Less current portion	<u>405,000</u> <u>\$ 1,370,000</u>

The annual requirements to amortize the debt are as follows:

Year Ending December 31	
2007	405,000
2008	430,000
2009	455,000
2010	485,000
	\$ 1,775,000

BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND

IMPROVEMENT DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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.

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 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.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

Note 8 - Water Sales Contracts and Commitments (Continued)

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.

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.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 9 - Concentrations

The District derived approximately sixty-two percent of its income for the year ended December 31, 2006 from the water sales contracts with the Bexar Metropolitan Water District. See note 8 for details of these contracts.

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, 2006**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance - Favorable (Unfavorable)
Revenues from operations:					
Fixed water assessments	\$ 355,176	\$ 21,702	\$ 376,878	\$ 372,233	\$ 4,645
Irrigation water sales	328,601	-	328,601	141,000	187,601
Land inclusion	-	-	-	60,000	(60,000)
Rental income	93,492	-	93,492	43,238	50,254
Tecon water sales	600	-	600	35,000	(34,400)
Other	36,356	-	36,356	16,000	20,356
	<u>814,225</u>	<u>21,702</u>	<u>835,927</u>	<u>667,471</u>	<u>168,456</u>
Operating expenses:					
Directors fees	12,600	-	12,600	12,600	-
Payroll	602,498	-	602,498	628,264	25,766
Professional fees	106,350	-	106,350	344,000	237,650
Contracted services	55,510	-	55,510	28,000	(27,510)
Maintenance and repairs	21,049	-	21,049	25,000	3,951
Insurance	173,436	-	173,436	203,500	30,064
Depreciation	345,277	(345,277)	-	-	-
Amortization	9,000	(9,000)	-	-	-
Telephone	10,428	-	10,428	12,000	1,572
Utilities	8,649	-	8,649	8,000	(649)
Fuel and lubricants	87,267	-	87,267	75,000	(12,267)
Water master fee	25,673	-	25,673	26,000	327
Materials	121,021	26,916	147,937	60,500	(87,437)
Contractual obligations	-	-	-	35,000	35,000
Supplies	7,816	-	7,816	86,735	78,919
Uniforms	5,965	-	5,965	6,500	535
Election costs	9,505	-	9,505	13,000	3,495
Postage	3,475	-	3,475	6,000	2,525
Legal notices & recording fees	8,297	-	8,297	5,000	(3,297)
Taxes - payroll	53,883	-	53,883	48,500	(5,383)
Dues and subscriptions	3,222	-	3,222	4,000	778
Travel	484	-	484	1,000	516
Other	5,944	-	5,944	1,500	(4,444)
	<u>1,677,349</u>	<u>(327,361)</u>	<u>1,349,988</u>	<u>1,630,099</u>	<u>280,111</u>
Loss from operations	<u>(863,124)</u>	<u>349,063</u>	<u>(514,061)</u>	<u>(962,628)</u>	<u>448,567</u>
Nonoperating revenues (expenses):					
Bexar-Met contract	1,468,500	-	1,468,500	1,468,496	4
Legal settlement	-	-	-	-	-
Interest	69,435	-	69,435	27,000	42,435
Debt service	(103,695)	(534,017)	(637,712)	(532,868)	(104,844)
	<u>1,434,240</u>	<u>(534,017)</u>	<u>900,223</u>	<u>962,628</u>	<u>(62,405)</u>
Excess of rev over exp	<u>571,116</u>	<u>(184,954)</u>	<u>386,162</u>	<u>-</u>	<u>386,162</u>
Net assets at Jan. 1	<u>5,972,738</u>	<u>-</u>	<u>5,972,738</u>	<u>5,972,738</u>	<u>-</u>
Net assets at Dec. 31	<u>\$ 6,543,854</u>	<u>\$ (184,954)</u>	<u>\$ 6,358,900</u>	<u>\$ 5,972,738</u>	<u>\$ 386,162</u>

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

**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, 2006, was received by the Board of Directors on the 6th day of April, 2007 and was reviewed and approved at a meeting of the Board of Directors of the District on the 9th day of April, 2007.

Signature of Board Secretary

Signature of Board President