

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

**COMMUNICATION WITH THE
BOARD OF DIRECTORS**

MARCH 18, 1998

Jansen and Gregorczyk

Certified Public Accountants

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March 18, 1998

Board of Directors
Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1
P.O. Box 170
Natalia, Texas 78059

Members of the Board:

In planning and performing our audit of the financial statements of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (District) for the year ended December 31, 1997 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1's ability to record, process, summarize, and report financial statements. The matters noted are only those that came to the auditor's attention and had the auditor's procedures in internal control structure related matters been more extensive, other matters may have been noted. No opinion is being expressed regarding the internal control structure taken as a whole.

The following are the reportable conditions noted during our examination:

Public Funds Investment Act

The District is required to be in compliance with the Public Funds Investment Act. All District funds were adequately insured or collateralized at year-end as required by the Act. The Board should approve a written policy to be fully compliance with the Public Funds Investments Act requirements.

Approval of Invoices

Members of the Board of Directors review invoices and sign all checks. To complete the documentation, the Directors should initial the invoice. This would indicate that the Director has reviewed the supporting documentation and that the documentation is proper. During the year, invoices were kept in one of several files. In the future all original invoices should be kept with the check copy. Copies of the invoices can be kept in other files.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above are believed to be a material weakness.

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

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance of the District, is a matter of public record.

We express our gratitude to the employees of the District for the courtesies and cooperation extended to us during the course of our audit. If we can be of any assistance in the further explanation of the contents of this letter or any other matter, please contact us at your convenience.

Respectfully submitted,

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March 18, 1998

Board of Directors
Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1
P.O. Box 170
Natalia, Texas 78059

Members of the Board:

We have audited the financial statements of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 for the year ended December 31, 1997, and have issued our report thereon dated March 18, 1998. Professional standards require that we provide you with the following information related to our audit.

A. The Auditor's Responsibility Under Generally Accepted Auditing Standards:

1. Communicate the nature of assurance provided by an audit.

It is our responsibility to assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement. Based on our assessment, we must design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements.

2. Communicate the level of responsibility assumed by the auditor.

Our opinion on the financial statements is based on the concept of reasonable assurance and therefore as auditors, we are not an insurer, nor does our report constitute a guarantee.

3. Communicate that an audit conducted in accordance with GAAS is designed to obtain reasonable, rather than absolute, assurance about the financial statements.

B. Significant Accounting Policies:

1. The Board of Directors should know about the initial selection of and changes in significant accounting policies or their application.

NONE

2. The Board of Directors should be informed about the methods used to account for significant unusual transactions.

NONE

3. The Board of Directors should know the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

NONE

C. Management Judgments and Accounting Estimates:

1. The Board of Directors should be informed about the process used by management in formulating particularly sensitive accounting estimates, and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

NONE

D. Significant Audit Adjustments:

1. The Board of Directors should be informed about adjustments that could either individually or in the aggregate, and either actually posted or not, have a significant effect on the financial statements.

Adjustments were made to the accrual accounts at year-end.

E. Other Information in Documents Containing Audited Financial Statements:

1. The auditor should discuss with the Board of Directors their responsibility for other information in documents containing audited financial statements, any procedures performed, and the results.

NONE

F. Disagreements With Management:

1. The auditor should discuss with the Board of Directors, any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or the auditor's report. Do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.

NONE

G. Consultation With Other Accountants:

1. If management decides to consult with other accountants about auditing and accounting matters, the auditor should discuss with the Audit Committee their views about significant matters that were the subject of such consultation.

NONE

H. Major Issues Discussed With Management Prior to Retention:

1. Any discussions with management about major issues in connection with the initial or recurring retention of the auditor that include, among other things, any discussions regarding the application of accounting principles and auditing standards.

NONE

I. Difficulties Encountered in Performing the Audit:

1. Any serious difficulties in dealing with management relating to the performance of the audit should be communicated. This could be timing of the field work, unreasonable delays by management, incomplete prepared by client (PBCs), and other items.

NONE

J. Noncompliance With Certain Loan Covenants:

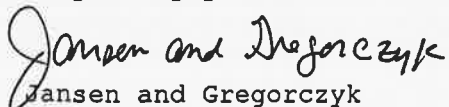
1. Any significant noncompliance with loan covenants should be disclosed.

NONE

The information is intended solely for the use of the Board of Directors of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1, the management of Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 and its regulatory bodies, and should not be used for any other purpose.

However, this report is a matter of public record and its distribution is not limited.

Very truly yours,


Jansen and Gregorczyk