

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

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 1999**

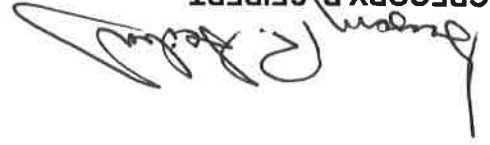
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**CERTIFIED PUBLIC ACCOUNTANT**  
**GREGORY R. SEIBERT**



My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the general purpose 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 the audit of the general purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

In my opinion, except for the omission of the information discussed in the preceding paragraph and as discussed in note 4, the general purpose 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, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As more fully discussed in note 4 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.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

I have audited the accompanying general purpose 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, 1999. These general purpose financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

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

May 9, 2000

**Independent Auditor's Report**

CERTIFIED PUBLIC ACCOUNTANT



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

**COMBINED BALANCE SHEET - ALL FUND TYPES**

December 31, 1999

**ASSETS**

	Current asset:
	Cash
	Accounts receivable:
	Fixed water assessments - net
	Texas Water Development Board
	Accrued interest
	Prepaid expenses
	Total current assets
	Property, plant and equipment
\$ 3,858,785	

Proprietary  
Fund Types

**LIABILITIES AND EQUITY**

	Current liabilities:
	Notes payable
	Accounts payable
	Capital lease payable
	Deferred revenue
	Accrued liabilities
	Total current liabilities
	Equity:
	Contributed capital
	Retained earnings
\$ 3,858,785	

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

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

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED  
EARNINGS - ALL PROPRIETARY FUND TYPES**

Year Ended December 31, 1999

Proprietary Fund Types	
\$ 397,013	Revenues from operations:
170,052	Fixed water assessments
31,050	Irrigation water sales
2,924	Billable labor and materials
6,994	Crossings , etc.
608,033	Miscellaneous
	Operating expenses:
13,390	Directors fees
355,386	Payroll
538,121	Professional fees
118,485	Maintenance and repairs
22,778	Insurance
85,224	Depreciation
7,266	Telephone
6,074	Utilities
18,450	Fuel and lubricants
24,592	Water master fee
14,332	Auto allowance
6,787	Supplies
3,050	Uniforms
5,302	Equipment rental
3,454	Schools and seminars
1,626	Postage
4,071	Legal notices & recording fees
1,228,388	Loss from operations
(620,355)	Nonoperating revenues (expenses):
710,511	Bexar-Met contract
35,000	Litigation proceeds
27,287	Interest income
(16,525)	Interest expense
756,273	Net income
135,918	Retained earnings at beginning of year
2,446,119	Retained earnings at end of year
<u>\$ 2,582,037</u>	

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

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1  
COMBINED STATEMENT OF CHANGES IN CASH FLOWS - ALL  
PROPRIETARY FUND TYPES  
Year Ended December 31, 1999**

Operating activities:	
Operating loss	\$ (620,355)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	85,224
(increase) decrease in operating asset items:	
Accounts receivable:	
Fixed water assessments - net	(11,464)
Texas Water Development Board	2,964
Accrued interest	405
Prepaid expenses	(13,587)
Increase (decrease) in operating liability items:	
Accounts payable	83,585
Deferred revenue	(21,685)
Accrued liabilities	(4,685)
Net cash used in operating activities	(499,598)
Noncapital financing activities:	
Proceeds from borrowings	119,589
Principal payments on notes payable	(129,720)
Interest paid on notes payable	(16,525)
Proceeds from Bexar-Met	710,511
Proceeds from litigation	35,000
Payment of contingent liability	(32,000)
Net cash provided by noncapital financing activities	686,855
Capital and related financing activities:	
Acquisition of capital assets	(16,599)
Principal payments on capital lease	(10,993)
Net cash used in capital and related financing activities	(27,592)
Investing activities:	
Interest income	27,287
Net cash provided by investing activities	27,287
Increase in cash and cash equivalents	186,952
Cash and cash equivalents at beginning of year	308,446
Cash and cash equivalents at end of year	\$ 495,398

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, 1999

**Note 1 - Summary of Significant Accounting Policies**

The Bexar-Madina-Atascosa 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 and account groups 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 were no component units required to be included in these financial statements.

**Fund Accounting** - The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund or account group 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 and groups of accounts 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.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND**

**IMPROVEMENT DISTRICT NO. 1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 1999

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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

**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, 1999 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**

Deposits (cash and certificate 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.



**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 1999

**Note 2 - Deposits (continued)**

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

Category	Bank		Cash and cash equivalents		Certificate of deposit	
	1	2	3	Carrying Amount	Total	
Balance	\$ 183,350	\$ 183,350	\$ -	\$ 245,398	\$ 245,398	
	250,000	250,000	-	250,000	250,000	
	\$ 433,350	\$ 433,350	\$ -	\$ 495,398	\$ 495,398	

**Note 3 - Accounts Receivable**

Accounts receivable consist of fixed water assessments of \$128,275 due as of December 31, 1999. A provision for estimated uncollectible accounts on these assessments in the amount of \$29,000 has been provided.

**Note 4 - 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, 1999 totaled \$85,224.

The following is a summary of the change in the fixed asset accounts for the year ended December 31, 1999:

	Balance December 31, 1998		Additions		Deletions		Balance December 31, 1999	
Land and easements	\$	194,451	\$	-	\$	-	\$	194,451
Buildings		160,190		-		-		160,190
Water system		2,778,419		-		-		2,778,419
Machinery and equipment		875,530		3,299		-		878,829
Vehicles		118,987		13,300		-		132,287
Furniture and fixtures		29,145		-		-		29,145
Fencing		11,282		-		-		11,282
Project development		289,998		-		-		289,998
		4,458,002		16,599		-		4,474,601
Less accumulated depreciation		1,162,952		85,224		-		1,248,176
	\$	3,295,050	\$	(68,625)	\$	-	\$	3,226,425

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO.1  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999**

**Note 4 - 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, 1999. 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 5 - Notes Payable**

The following is a summary of notes payable as of December 31, 1999:

Various notes payable to Medina Valley State Bank; interest accrues at the rate of 6.3% until maturity on January 15, 2000; secured by a vehicle and a \$250,000 certificate of deposit.	\$ 207,000
Note payable to Express Premium Finance Company; due in monthly installments of \$1,450 including interest at 8.75%; matures in June, 2000.	2,869
	<u>\$ 209,869</u>

On January 15, 2000, the notes payable to Medina Valley State Bank were refinanced with a note bearing interest at 6.3% that matures January 15, 2001.

**Note 6 - 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

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND**

**IMPROVEMENT DISTRICT NO. 1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 1999

**Note 6 - Water Sales Contracts and Commitments (continued)**

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 April, 1998, the District's Certificate of Adjudication were amended by the TNRCC 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 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.

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.

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND**

**IMPROVEMENT DISTRICT NO. 1**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 1999

**Note 6 - Water Sales Contracts and Commitments (continued)**

**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.

**Note 7 - Litigation**

The District is a defendant in a lawsuit arising principally in the normal course of operations. In the opinion of management, the outcome of this lawsuit will not have a material adverse effect on the accompanying combined financial statements and, accordingly, no provision for losses have been recorded.

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, 1999**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance - Favorable (Unfavorable)
Revenues from operations:					
Fixed water assessments	\$ 397,013	\$ (33,150)	\$ 363,863	\$ 382,500	\$ (18,637)
Irrigation water sales	170,052	-	170,052	191,500	(21,448)
Billable labor and materials	31,050	-	31,050	-	31,050
Crossings, etc.	2,924	-	2,924	-	2,924
Miscellaneous	6,994	2,964	9,958	-	9,958
Operating expenses:	608,033	(30,186)	577,847	574,000	3,847
Directors fees	13,390	-	13,390	13,800	410
Payroll	355,386	-	355,386	372,200	16,814
Professional fees	538,121	(93,242)	444,879	165,500	(279,379)
Maintenance and repairs	118,485	23,871	142,356	54,000	(88,356)
Insurance	22,778	8,282	31,060	49,000	17,940
Depreciation	85,224	(85,224)	-	-	-
Telephone	7,266	-	7,266	4,800	(2,466)
Utilities	6,074	-	6,074	6,000	(74)
Fuel and lubricants	18,450	(1,781)	16,669	25,000	8,331
Water maser fee	24,592	24,592	49,184	24,200	(24,984)
Auto allowance	14,332	-	14,332	15,000	668
Supplies	6,787	-	6,787	4,800	(1,987)
Uniforms	3,050	-	3,050	6,000	2,950
Equipment rental	5,302	-	5,302	1,200	(4,102)
Schools and seminars	3,454	-	3,454	1,800	(1,654)
Postage	1,626	-	1,626	3,600	1,974
Legal notices & recording fees	4,071	-	4,071	3,000	(1,071)
Office equipment	-	3,299	3,299	3,000	(299)
Miscellaneous	-	-	-	3,400	3,400
Special projects	-	-	-	56,375	56,375
Loss from operations	1,228,388	(120,203)	1,108,185	812,675	(295,510)
Nonoperating revenues (expenses):					
Bexar-Met contract	710,511	-	710,511	340,000	370,511
Litigation proceeds	35,000	-	35,000	-	35,000
Loan proceeds	-	119,589	119,589	60,000	59,589
Interest	27,287	405	27,692	32,425	(4,733)
Other	-	-	-	21,150	(21,150)
Loan payments	-	(140,713)	(140,713)	(184,400)	43,687
Interest expense	(16,525)	(4,727)	(21,252)	(20,500)	(752)
Field vehicle	-	(13,300)	(13,300)	(10,000)	(3,300)
Excess of revenues over expenditures	135,918	51,271	187,189	-	187,189
Retained earnings at Jan. 1	2,446,119	-	2,446,119	2,446,119	-
Retained earnings at Dec. 31	\$ 2,582,037	\$ 51,271	\$ 2,633,308	\$ 2,446,119	\$ 187,189

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

**BEXAR-MEDINA-ATASCOSA COUNTIES WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF REVENUES AND EXPENSES**  
**Years Ended December 31**

	1999	1998	1997	1996	1995
<b>Revenues from operations:</b>					
Fixed water assessments	\$ 397,013	\$ 397,954	\$ 319,908	\$ 287,146	\$ 337,060
Irrigation water sales	204,026	229,360	74,763	355,052	197,620
Intergovernmental	-	168,000	336,000	468,000	941,390
Rent and royalty income	6,994	6,956	8,853	38,978	6,790
Penalties and interest	14,018	18,632	7,522	11,538	12,690
	<u>622,051</u>	<u>820,902</u>	<u>747,046</u>	<u>1,160,714</u>	<u>1,495,550</u>
<b>Operating Expenses:</b>					
Payroll expense	355,386	361,482	372,379	408,966	350,230
Professional fees	538,121	310,860	352,818	378,698	219,900
Repair and maintenance of system	118,485	58,716	46,061	75,395	62,510
Consumable supplies and materials	-	-	-	-	27,810
General and administrative expenses	131,172	157,801	162,908	76,334	123,860
Depreciation expense	85,224	85,224	85,217	85,210	84,300
	<u>1,228,388</u>	<u>974,083</u>	<u>1,019,383</u>	<u>1,024,603</u>	<u>868,610</u>
Operating income (loss)	(606,337)	(153,181)	(272,337)	136,111	626,940
Nonoperating revenues	758,780	14,875	151,974	365,102	708,940
Nonoperating expenses	(16,525)	(87,272)	(171,392)	(362,013)	(708,120)
Net income (loss)	<u>\$ 135,918</u>	<u>\$ (225,578)</u>	<u>\$ (291,755)</u>	<u>\$ 139,200</u>	<u>\$ 627,760</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, 1999, was received by the Board of Directors on the 11th day of May, 2000 and was reviewed and approved at a meeting of the Board of Directors of the District on the 11th day of May, 2000.

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

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