

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

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED DECEMBER 31, 1996**

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

Financial Statements

Year Ended December 31, 1996

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Independent Auditor's Report

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 accompanying financial statements of the Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (the "District") as of December 31, 1996, and for the year 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 audit.

We conducted our audit 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 audit provides 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 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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 as of December 31, 1996 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

Jansen and Gregorczyk
Jansen and Gregorczyk
July 9, 1997

<u>Liabilities and Equity</u>	<u>December 31 1996</u>
Current Liabilities:	
Accounts Payable	\$451,084
Interest Payable	13,384
Payroll and Related Payables	3,905
Deferred Revenue	73,061
Note Payable (Note 5)	145,000
Revenue Note (Note 5)	185,000
Current Portion of Lease Obligations (Note 6)	<u>66,908</u>
Total Current Liabilities	938,342
Capital Lease Obligations (Net of Current Portion) (Note 6)	30,059
Contingent Liability (Notes 8 and 10)	-
Equity:	
Contributed Capital (Note 8)	221,436
Retained Earnings	<u>2,963,452</u>
Total Equity	<u>3,184,888</u>
Total Liabilities and Equity	<u><u>\$4,153,289</u></u>

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1
Statements of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended December 31, 1996

	<u>December 31 1996</u>
Revenues from Operations:	
Fixed Water Assessments	\$287,146
Water Sales	355,052
Intergovernmental (Note 8)	468,000
Miscellaneous	38,978
Penalties and Interest	11,538
	<u>1,160,714</u>
Operating Expenses:	
Payroll and Payroll Related Expenses	408,966
Professional Fees	378,698
Repair and Maintenance of System	75,395
General and Operating Expenses	76,334
Depreciation Expense	85,210
	<u>1,024,603</u>
Operating Income (Loss)	136,111
Nonoperating Revenues (Expenses):	
Interest Income	17,613
Governmental Revenue	347,489
Interest Expense	(22,637)
Expenses Related to Governmental Revenues	<u>(339,376)</u>
Net Income	139,200
Retained Earnings at Beginning of Year	<u>2,824,252</u>
Retained Earnings at End of Year	<u><u>\$2,963,452</u></u>

The accompanying notes are an integral part of the statement.

Bexar-Medina-Atascosa Counties Water Control
and Improvement District No. 1
Statements of Cash Flows
For the Year Ended December 31, 1996

	December 31 1996
Operating Activities	
Operating Income	\$136,111
Adjustments to Reconcile Operating Income	
Cash Used for Operating Activities:	
Depreciation	85,210
Changes in Operating Assets & Liabilities:	
Increase in Accounts Receivable	(363,787)
Increase in Prepaid Expenses	(5,520)
Increase in Accounts Payable	346,856
Increase in Deferred Revenue	9,772
Increase in Payroll Payable	3,905
Net Cash Used in Operation Activities	212,547
 Noncapital Financing Activities	
Principal Payments on Notes Payable	(5,000)
Proceeds from Governmental Projects	347,489
Expenses Related to Governmental Revenues	(339,376)
Interest Paid on Notes Payable	(8,477)
Net Cash Provided by Noncapital Financing Activities	(5,364)
 Capital and Related Financing Activities	
Acquisition of Capital Assets	(208,305)
Proceeds from Borrowings	185,000
Principal Payments on Capital Lease	(68,295)
Interest Paid on Capital Lease	(7,942)
Project Development Costs	(233,791)
Net Cash Used in Capital and Related Financing Activities	(333,333)
 Investing Activities	
Interest on Certificate of Deposit	12,267
Net Cash Provided by Investing Activities	12,267
Decrease in Cash and Cash Equivalents	(113,883)
 Cash and Cash Equivalents at Beginning of Year	386,554
Cash and Cash Equivalents at End of Year	\$272,671

The accompanying notes are an integral part of the statement.

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

Notes to the Financial Statements

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, 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 its service area.

The District is under full control and management of a seven-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 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.

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 betterment are capitalized.

The estimated lives for depreciation expense is presented as follows:

Building	15 - 50 Years
Machinery and Equipment	7 - 30 Years
Automobiles and Trucks	5 - 10 Years
Furniture & Fixtures	3 - 30 Years
Fencing	30 Years
Miscellaneous	3 - 30 Years
Communication Equipment	10 Years

Cash Equivalents

Cash equivalents consist of certificates of deposits 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.

Vacation and Sick Leave

The District allows employees to accumulate vacation and sick leave within certain limitations. Pursuant to GASB pronouncements, the District does not accrue nor record as expenses non-vested sick leave. The accrued vacation payable at December 31, 1996 was immaterial and was not accrued at year-end.

Capitalization of Interest

In accordance with FASB No. 62, the District capitalized net interest on funds borrowed to finance construction of fixed assets. no interest was received nor capitalized to finance any fixed asset in 1996.

3. Cash and Deposits

At December 31, 1996, the District held cash and cash equivalents. Included in this amount was \$400 of cash on hand and the remainder was on deposit at various banks in demand accounts and certificates of deposit with terms less than twelve months.

Deposits as of December 31, 1996 are categorized below as an indicator of credit risk. Category 1 includes deposits that are insured by the FDIC or collateralized with securities held by the District or its agent and listing the District as owner. Category 2 includes deposits that are collateralized with securities held by the pledging financial institutions' trust departments or its agent but listing the District as owner. Category 3 includes deposits that are either collateralized with securities not listing the District as owner or uncollateralized completely.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Cash and Cash Equivalents	\$ 22,671	-	-	\$ 52,393	\$ 22,671
Time Deposits Exceeding	\$250,000	-	-	\$250,000	\$250,000
TOTAL DEPOSITS	\$272,671	-	-	\$302,393	\$272,671

4. Accounts Receivable

Accounts receivable consist of fixed water assessments of \$90,184 at December 31, 1996. 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. Also per Note 8, the Bexar-Met owes the District \$345,832 at year-end.

5. Note and Revenue Note Payable

The note payable outstanding is summarized as follows:

Series	Date of Issue	Final Maturities	Interest Rate	Original Amounts	Outstanding 12/31/95	Retired	Issued	Outstanding 12/31/96
Notes Payable	1989	1997	6.75%	\$150,000	\$150,000	\$5,000		\$145,000
Revenue Notes	1996	1997	5.75%	\$185,000	0	0	\$185,000	\$185,000
								\$330,000

The following summarizes the notes payable:

1997	\$330,000
Thereafter	0

	\$330,000
	=====

6. Capital Lease Obligations

The District has capital lease obligations for \$102,551 as of December 31, 1996. 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, 1996:

	<u>Capital Lease</u>
1997	\$ 70,452
1998	13,282
1999	13,282
2000	5,535

Total minimum lease payments	\$102,551
Less amount representing interest	5,584

Present value of net minimum lease payments	96,967
Less current portion	66,908

Noncurrent portion	\$ 30,059
	=====

7. Accounting for Assets

The value of land acquired since 1925 by the District has not been established; therefore, it is not included in the balance sheets. The land was acquired by the District for the purpose of operating and maintaining, and expanding the system of canals for the irrigation system. The total number of acres acquired by 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 April, 1997, 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 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.

The 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 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.

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 from the conservation agreement to the extent it incurs expenses allowable under the agreement.

Intergovernmental revenues include \$300,000 from the 1992 conservation agreement. To the extent the District's expends agreement proceeds for capital improvements, it recognizes capital contributions.

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.

9. Pension Plan

The District has a pension plan that the proceeds are invested in an insurance plan. The employees are eligible on the first day of employment, and they invest any amount. The Board determines the contributions each year. The eligible payroll was \$337,945 during 1996 and the pension cost were \$2,065 or .6% of payroll.

10. Litigation

The District has two pending cases. Total damages and claims are unknown at this time. The District intends to vigorously defend itself. The possible outcome is unknown at this time.