

BEXAR COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 10

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2011

ANNUAL FINANCIAL REPORT  
OF THE  
BEXAR COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 10  
YEAR ENDED DECEMBER 31, 2011

President

Melroy I. Brandt

Vice-President

Paul F. Greenwood

Treasurer

Edward F. Chevalier

Secretary

Inge R. Geiger

Director

Walton R. Melson

General Manager/Tax Assessor-Collector

Richard Frenzel

## C O N T E N T S

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
<u>BASIC FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS - WATER AND WASTEWATER - PROPRIETARY FUND	4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - WATER AND WASTEWATER - PROPRIETARY FUND	5
STATEMENT OF CASH FLOWS - WATER AND WASTEWATER - PROPRIETARY FUND	6
NOTES TO FINANCIAL STATEMENTS	7
<u>REQUIRED SUPPLEMENTARY INFORMATION - TEXAS REQUIREMENT</u>	
TSI-1 SERVICES AND RATES	14
TSI-2 ENTERPRISE FUND EXPENSES	15
TSI-3 TEMPORARY INVESTMENTS	16
TSI-4 TAXES LEVIED AND RECEIVABLE - NOT APPLICABLE	
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS - NOT APPLICABLE	
TSI-6 CHANGES IN LONG-TERM BONDED DEBT - NOT APPLICABLE	
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - FIVE YEARS	17
TSI-8 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS	18
N-1 ANNUAL FILING AFFIDAVIT	19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20



4801 N.W. LOOP 410, SUITE 725  
SAN ANTONIO, TEXAS 78229-5508  
210/541-2581  
FAX 210/541-2588  
cpas@twbky.com

Thompson,  
Williams,  
Biediger,  
Kastor  
&  
Young,  
L.C.

CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditor's Report

Board of Directors  
Bexar County Water Control and  
Improvement District No. 10  
Bexar County, Texas

We have audited the accompanying financial statements of Bexar County Water Control and Improvement District No. 10 (the District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bexar County Water Control and Improvement District No. 10, as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012, on our consideration of Bexar County Water Control and Improvement District No. 10's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 3d be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Bexar County Water Control and Improvement District No. 10's financial statements as a whole. The accompanying financial information listed as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Thompson, Williams, Biediger, Foster & Young, P.C.*

Certified Public Accountants

San Antonio, Texas

April 19, 2012

## **Bexar County Water Control and Improvement District No. 10 Management's Discussion and Analysis (MD&A)**

As management of Bexar County Water Control and Improvement District No. 10 (the District), we offer readers the following discussion and analysis of the District's financial activities for the calendar year ended December 31, 2011. The MD&A should be read in conjunction with the accompanying basic financial statements.

### **Financial Highlights**

- The assets of the District exceed its liabilities by \$7,661,208 (net assets) for the fiscal year reported. This is an increase of \$322,789 over the previous year's net asset balance.
- Total net assets are comprised of the following:
  1. Invested in capital assets in the amount of \$5,779,011 includes all property and equipment owned by the District, net of accumulated depreciation.
  2. Unrestricted net assets of \$ 1,882,197 represent the portion available to fund the District's operations.
- Operating revenues increased by \$303,878 an increase of 19.61% from calendar year 2011. This was due to the extended drought which resulted in increased water demand.
- Operating expenses increased by \$156,317, an increase of 11.25% from calendar year 2011. Operating expenses were higher also due to the extended drought. The District experienced in excess of 80 water main breaks in 2011. This resulted in not only higher personnel expenses (overtime), but larger outlays for replacement parts, fuel, and street repairs.
- Growth in capital assets was \$108,992.

### **Overview of the Financial Statements**

The management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements and is comprised of two components: (1) basic financial statements and (2) notes to the financial statements.

#### **Basic Financial Statements**

The District maintains a single enterprise fund. This fund is presented in the statement of net assets and in the statement of revenues, expenses, and changes in net assets.

The statement of net assets presents all of the District's assets and liabilities, with the difference being 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 revenues, expenses, and changes in net assets reports how the District's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

### Notes to the Financial Statements

The accompanying notes provide additional information essential to a full understanding of the data provided in the financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents various statistical and financial data for the District as supplementary information required by the Texas Commission on Environmental Quality.

### Financial Analysis

The District's net assets at calendar year end are \$7,661,208. This is a \$322,789 increase over last year's net assets of \$7,338,419. The following table provides a summary of the District's net assets at December 31, 2011:

	BUSINESS-TYPE ACTIVITIES		AMOUNT CHANGE	PERCENT CHANGE
	2011	2010		
Current and Other Assets	\$ 2,009,462	\$ 1,600,194	\$ 409,268	25.58%
Capital Assets	5,779,011	5,914,778	(135,767)	(2.30)
TOTAL ASSETS	<u>7,788,473</u>	<u>7,514,972</u>	<u>273,501</u>	3.64
Current Liabilities	116,914	166,789	(49,875)	(29.90)
Non-Current Liabilities	10,351	9,764	587	6.01
TOTAL LIABILITIES	<u>127,265</u>	<u>176,553</u>	<u>(49,288)</u>	(27.92)
Net Assets:				
Invested in Capital Assets	5,779,011	5,914,778	(135,767)	(2.30)
Unrestricted	<u>1,882,197</u>	<u>1,423,641</u>	<u>458,556</u>	32.21
TOTAL NET ASSETS	<u>\$ 7,661,208</u>	<u>\$ 7,338,419</u>	<u>\$ 322,789</u>	4.40

Development of The Gardens of Windcrest, a gated community of 28 lots, remains at a virtual standstill. At the end of 2011, 16 homes were completed and occupied. One home was built and sold in 2011. One new home built in 2010 remains unoccupied.

The primary goal of the District's investment program is security of assets and preservation of value. As a result, investments are in, and will remain in, certificate of deposit and money market accounts. The money market account is maintained at a level sufficient to meet the District's programmed capital expenditures. Investment income for 2011 continued to fall. Certificate of deposit rates fell to about 1.0% for one year certificates. During 2011, CDs were allowed to roll-over, but the Board decided to stagger maturity dates to create a five year ladder. The consensus is that the investment market will improve within the next twelve months and we will see higher rates when the CDs mature. We are meeting our goal of

Security of assets, but we are falling short of preserving value since inflation is higher than current returns. Ultimately, we are in the water business, not the investment business.

Revenue from water sales came in well above expectations. The worst drought in recent history began in the later part of 2010. By the time 2011 dawned, it was very dry and no significant rainfall occurred until December 2011. On April 18, 2011, the region entered Stage I watering restrictions followed by Stage II restrictions on June 2<sup>nd</sup>. Those restrictions remained in effect throughout the remainder of the year. Enforcement of watering restrictions was weak, but demand was held in check by the District's punitively high Critical Period water rate structure. As a result, water revenue went up well above projections. Sewer revenue also went up significantly because sewer averages were higher due to the dry 2010/2011 winter. However, higher sewer revenue is offset by higher sewer treatment expense, so effects of a drought are less noticeable on sewer operation than they are on water operation.

In late 2010, the Board was faced with having to consider a rate increase because of normal increase in expenses and an 11.7% increase in the San Antonio Water System wholesale wastewater rate. The Board decided to take advantage of the necessary increase to solve a long standing problem in its rate structure by reducing the minimum charge, eliminate the 5 ccf allowance in the minimum charge and charge for all consumption. The benefits of that decision yielded positive results in 2011; 40% of our customers ended up with a lower bill compared to the old rate structure. This was offset by customers in the 4-6 ccf range who saw an increase of 25-35%. Fortunately, our customers understood and accepted the change once they understood the rationale behind it. While the increase solved our immediate financial woes, the water operation still subsidized the wastewater operation. Parity was achieved for the first time in the District's history when the 2012 budget was finalized in December 2011.

In 2011, the District, as part of its long term program to upgrade infrastructure, authorized its engineer to start work on a project to replace approximately 4,300 feet of water mains and 2,000 feet of sewer mains. Five hundred thousand dollars was budgeted for the project. This was the District's first work on water mains in approximately 20 years, but it was seen as an opportunity to upgrade both water and sewer infrastructure in the same area at the same time. The area selected was an area with a long history of water main breaks and sporadic sewer system problems. The sewer system had been televised/surveyed, revealing it was in bad condition. During the design state, we discovered that much of the project was impacted by telephone cables that overlaid our infrastructure, making it virtually impossible to excavate without tearing up AT&T's cables. In late December, the District's engineer and general manger met with AT&T representatives who agreed with our assessment and agreed that they were responsible for relocating the cables. Unfortunately, they anticipated it would take approximately six months to complete the project, carrying us well into 2012 before we could begin work. While undesirable, no customer impact was anticipated due to the delay and the District ended the year waiting on AT&T to complete their work.



### SUMMARY OF CHANGES IN NET ASSETS

	<u>BUSINESS-TYPE ACTIVITIES</u>		<u>AMOUNT CHANGE</u>	<u>PERCENT CHANGE</u>
	<u>2011</u>	<u>2010</u>		
<u>REVENUES</u>				
Charges for Services	\$ 1,853,792	\$ 1,549,914	\$ 303,878	19.61%
<u>EXPENSES</u>				
Operating Expenses	1,545,487	1,389,170	156,317	11.25
<u>OTHER REVENUES (EXPENSES)</u>				
Capital Contributions	-	22,665	(22,665)	(100.0)
Investment Income	<u>14,484</u>	<u>16,681</u>	<u>(2,197)</u>	(13.17)
Change in Net Assets	322,789	200,090	122,699	61.32
<u>BEGINNING NET ASSETS</u>	<u>7,338,419</u>	<u>7,138,329</u>	<u>200,090</u>	2.80
ENDING NET ASSETS	<u>\$ 7,661,208</u>	<u>\$ 7,338,419</u>	<u>\$ 322,789</u>	4.40

### Financial Analysis of the District's Operations

For the calendar year ended December 31, 2011, the District has an overall positive fund balance of \$7,661,208. Of this year-end total \$1,882,197 is unrestricted, indicating availability for continuing service requirements. This year's increase in overall fund balance was \$322,789.

### Capital Assets

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2011 was \$5,779,011. The total decrease in this net investment was 2.30%. See Note 3 (on Page 10) for additional information about changes in capital assets during the calendar year.

### CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>BUSINESS-TYPE ACTIVITIES</u>		<u>AMOUNT CHANGE</u>	<u>PERCENT CHANGE</u>
	<u>2011</u>	<u>2010</u>		
<u>Non-Depreciable Assets</u>				
Land	\$ 10,776	\$ 10,776	\$ -	0.0%
Water Rights	2,091,790	2,091,790	-	0.0
Construction in Progress	48,515	-	48,515	100.0
<u>Depreciable Assets</u>				
Gathering and Distribution Systems	3,556,117	3,787,443	(231,326)	(6.11)
Equipment	<u>71,813</u>	<u>24,769</u>	<u>47,044</u>	189.93
TOTALS	<u>\$ 5,779,011</u>	<u>\$ 5,914,778</u>	<u>\$ (135,767)</u>	(2.30)



## **Budget, Economic Environment, and Projected Projects**

One of the key factors influencing the budget of a water/wastewater utility is the weather. It directly effects water consumption and can have pronounced effects on the revenue derived from sales. Our budget is based on an "average" year as best we can define that term, but is weighted toward a wet year. This assures that if we have a wet year and the attendant drop in both water and wastewater revenue, we will be able to meet expenses and still build critical reserves.

Ultimately, the best the District can do under these circumstances is to create a budget in December based on intuition and experience that suggests what the following twelve months will be.

### **Contacting the District's Financial Management**

This report is designed to provide the board of directors, citizens, customers, bond rating agencies, investors, 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 about this report or need additional financial information, contact:

General Manager  
Bexar County Water Control and Improvement District No. 10  
8601 Midcrown Drive  
Windcrest, Texas 78239  
(210) 655-2888

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
STATEMENT OF NET ASSETS - WATER AND WASTEWATER  
PROPRIETARY FUND  
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 617,663
Investments	1,213,024
Accounts Receivable	129,661
Inventory	22,319
Cash and Cash Equivalents - Restricted Assets	<u>26,795</u>
Total Current Assets	<u>2,009,462</u>

NONCURRENT ASSETS

Capital Assets	
Land	10,776
Water Rights	2,091,790
Gathering and Distribution Systems	8,025,182
Equipment	230,044
Construction in Progress	48,515
Less: Accumulated Depreciation	<u>(4,627,296)</u>
Total Noncurrent Assets	<u>5,779,011</u>

TOTAL ASSETS

\$7,788,473

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 71,107
Accrued Compensated Absences	3,451
Accrued Expenses	<u>15,561</u>
Total Current Liabilities	<u>90,119</u>

CURRENT LIABILITIES PAYABLE  
FROM RESTRICTED ASSETS

Customer Deposits	<u>26,795</u>
-------------------	---------------

NON-CURRENT LIABILITIES

Accrued Compensated Absences	<u>10,351</u>
Total Liabilities	<u>127,265</u>

NET ASSETS

Invested in Capital Assets	5,779,011
Unrestricted	<u>1,882,197</u>
Total Net Assets	<u>7,661,208</u>

TOTAL LIABILITIES AND NET ASSETS

\$7,788,473

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - WATER AND WASTEWATER  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Charges for Services	
Water Sales	\$ 739,275
Wastewater Services	927,114
Other Fees and Assessments	<u>187,403</u>
Total Operating Revenues	<u>1,853,792</u>

OPERATING EXPENSES

Personnel	337,316
Professional Fees	12,938
Contractual Services	85,520
Wastewater Services	578,450
Repairs and Maintenance	125,307
Utilities	75,082
Other Supplies and Expenses	86,115
Depreciation	<u>244,759</u>
Total Operating Expenses	<u>1,545,487</u>
Operating Income	308,305

NON-OPERATING REVENUES

Interest Income	<u>14,484</u>
Change in Net Assets	322,789

NET ASSETS - BEGINNING

	<u>7,338,419</u>
TOTAL NET ASSETS - ENDING	<u>\$ 7,661,208</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
STATEMENT OF CASH FLOWS - WATER AND WASTEWATER  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2011

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$ 1,824,399
Cash Paid for Personnel Services	(343,464)
Cash Paid for Professional Fees	(12,938)
Cash Paid for Contractual Expenses	(85,520)
Cash Paid for Wastewater Contract	(615,478)
Cash Paid for Repairs and Maintenance	(125,307)
Cash Paid for Utilities	(75,082)
Cash Paid for Supplies and Operating Expenses	<u>(82,607)</u>
Net Cash Provided by Operating Activities	<u>484,003</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchase of Capital Assets	(108,992)
Purchase of Investments	<u>(208,430)</u>
Net Cash Used in Investing Activities	<u>(317,422)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Income	<u>14,484</u>
Net Increase in Cash and Cash Equivalents	181,065
 <u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	
	<u>463,393</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 644,458</u>
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>	
<u>PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income	\$ 308,305
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation	244,759
Changes to Assets and Liabilities	
Accounts Receivable	(23,628)
Inventory	3,855
Accounts Payable	(37,028)
Customer Deposits	(5,765)
Accrued Expenses	(7,278)
Accrued Compensated Absences	<u>783</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 484,003</u>



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bexar County Water Control and Improvement District No. 10 (the District) is a governmental agency that was created by an order of the Texas Water Rights Commission on November 28, 1955 under Section 59 of Article 16 of the Texas Constitution and operates under Chapter 51 of the Texas Water Code.

The creation of the District was confirmed by the electorate of Bexar County Water Control and Improvement District No. 10 at a confirmation election held on February 4, 1956. The board of directors held its first meeting on January 17, 1956 and the first bonds were sold on January 1, 1958.

The District is governed by an elected board of directors. As a water district, it is not controlled by, or dependent upon, any other entity, and does not exercise control over operations of any other entity.

The accounting policies of Bexar County Water Control and Improvement District No. 10 conform to generally accepted accounting principles. The following is a summary of such significant policies.

A. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The financial statements of the District are reported on the accrual basis of accounting. An enterprise fund is used to account for the operations of the District. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for water and wastewater services. Operating expenses for enterprise funds include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector for their enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

B. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and interest-bearing deposits held by the District.



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Investments

The District is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above or credit unions that are guaranteed by the National Credit Union Association; and (6) fully collateralized direct repurchase agreements having a defined termination date.

For the year ended December 31, 2011, the District invested strictly in certificates of deposit and investment pools.

D. Receivables

All receivables are reported at gross values. There is no estimate for uncollectible amounts for water and wastewater accounts as the District has not had a history of uncollectible amounts.

E. Inventory

Inventory consists primarily of equipment and small parts that are used in the repair and maintenance of the District's existing gathering and distribution systems. The inventory is stated at the lower of cost (first-in, first-out method) or market value.

F. Capital Assets

Capital assets, which include land, water rights, gathering and distribution systems, machinery, equipment, and vehicles are reported in the District's financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. When capital assets are purchased, they are capitalized and depreciated in the financial statements.

Capital assets are valued at cost where historical records are available and at an estimated cost where no records exist. Donated capital assets are valued at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Improvements to capital assets that materially extend the life of the asset or add to the value are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets (Continued)

Capital assets are depreciated over their useful lives on a straight-line basis as follows:

<u>ASSETS</u>	<u>YEARS</u>
Gathering and Distribution Systems	15 - 40
Equipment	3 - 10

G. Compensated Absences

All full-time employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences for sickness do not vest or accumulate and are recorded as an expense when they are paid. Compensated absences for vacation pay and compensated time do have a vesting portion based on hours accumulated times the current rate of pay to be paid upon retirement, release from employment, or resignation. A liability for this amount is reflected in the financial statements.

H. Reserves on Fund Equity

The District reports reservations of net assets for amounts that are not available for appropriation.

I. Pension Plan

The District provides pension benefits for all its full-status employees through the Texas County and District Retirement System.

J. Use of 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

As of December 31, 2011, the District had the following investments:

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>
TexPool Investment Pool	\$ 287,466	-
Certificates of Deposit	<u>925,558</u>	<u>1.44</u>
TOTAL	<u>\$1,213,024</u>	
PORTFOLIO WEIGHTED AVERAGE MATURITY		<u>1.44</u>



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the investment policies adopted by the board of directors in complying with state statutes. State law limits investments in investment pools to those continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service. The District's investment policy does not further limit its investment choices. As of December 31, 2011, the District's pooled investments were rated "AAA" by Standard and Poor's.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or the district will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be collateralized by securities pledged by the District's agent, the District's financial institution or the financial institution's trust department, less the amounts of the Federal Deposit Insurance Corporation insurance (FDIC) and the National Credit Union Administration (NCUA). The board of directors approves and designates all authorized depository institutions.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy provides that investments are matched with anticipated cash flows to provide for adequate and timely availability of funds necessary to pay obligations as they become due.

NOTE 3: CAPITAL ASSETS

A summary of capital assets at December 31, 2011 is as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ENDING BALANCE</u>
Capital Assets, not being Depreciated				
Land, Easements, etc.	\$ 10,776	\$ -	\$ -	\$ 10,776
Construction in Progress	-	48,515	-	48,515
Water Rights	<u>2,091,790</u>	-	-	<u>2,091,790</u>
Total Capital Assets, not being Depreciated	<u>2,102,566</u>	<u>48,515</u>	<u>-</u>	<u>2,151,081</u>
Capital Assets, being Depreciated				
Gathering and Distribution Systems	8,022,952	2,230	-	8,025,182
Equipment	<u>189,706</u>	<u>58,247</u>	<u>(17,909)</u>	<u>230,044</u>
Total Capital Assets, Being Depreciated	<u>8,212,658</u>	<u>60,477</u>	<u>(17,909)</u>	<u>8,255,226</u>
Less Accumulated Depreciation for				
Gathering and Distribution Systems	(4,235,509)	(233,556)	-	(4,469,065)
Equipment	<u>(164,937)</u>	<u>(11,203)</u>	<u>17,909</u>	<u>(158,231)</u>
Total Accumulated Depreciation	<u>(4,400,446)</u>	<u>(244,759)</u>	<u>17,909</u>	<u>(4,627,296)</u>
Total Capital Assets, being Depreciated - Net	<u>3,812,212</u>	<u>(184,282)</u>	<u>-</u>	<u>3,627,930</u>
CAPITAL ASSETS - NET	<u>\$ 5,914,778</u>	<u>\$ (135,767)</u>	<u>\$ -</u>	<u>\$ 5,779,011</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 4: EMPLOYEES' RETIREMENT SYSTEM

Plan Description

Bexar County Water Control and Improvement District No. 10 provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The board of trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the board of trustees at Post Office Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 (eighty) or more. Members are vested after 10 (ten) years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the restricting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The District has elected the variable rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 6.67% for the 2011 calendar year. The deposit rate payable by all employee members for the 2011 calendar year is the rate of 7%. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available to the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending December 31, 2011, the annual pension cost for the TCDRS Plan for its employees was \$18,864 and the actual contributions were \$18,864.



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 4: EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Annual Pension Cost (Continued)

The annual required contributions were actuarially determined as a percent of covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2008 and December 31, 2009, the basis for determining the contribution rates for calendar years 2010 and 2011. The December 31, 2010 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Amortization Period	20 Years	20 Years	20 Years
Asset Valuation Method	10 Year Smoothed Value	10 Year Smoothed Value	10 Year Smoothed Value
Actual Assumptions:			
Investment Return*	8.0%	8.0%	8.0%
Projected Salary Increase*	5.3	5.4	5.4
Inflation	3.5	3.5	3.5
Cost-of-Living Adjustments	0.0	0.0	0.0

\* Include inflation at the stated rate.

Trend Information for the Retirement Plan

<u>YEAR ENDING</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
December 31, 2009	\$ 17,960	100%	\$ -
December 31, 2010	19,536	100	-
December 31, 2011	18,864	100	-

Schedule of Funding Progress for the Retirement Plan

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS (a)</u>	<u>ACTUARIAL ACCRUED LIABILITY (AAL) (b)</u>	<u>UNFUNDED AAL (UAAL) (b-a)</u>	<u>FUNDED RATIO (a/b)</u>	<u>ANNUAL COVERED PAYROLL (c)</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL [(b-a)/c]</u>
December 31, 2008	\$ 534,411	\$ 612,850	\$ 78,439	87.20%	\$ 266,011	29.49%
December 31, 2009	604,547	677,830	73,283	89.19	280,185	26.16
December 31, 2010	674,606	734,348	59,742	91.86	276,317	21.62



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

NOTE 5: CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets, error and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. As of December 31, 2011 there was no threatening or pending litigation against the District.

**REQUIRED SUPPLEMENTARY INFORMATION -  
TEXAS REQUIREMENT**

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
TSI-1. SERVICES AND RATES  
YEAR ENDED DECEMBER 31, 2011

**1. Services Provided by the District during the Fiscal Year:**

<u>X</u>	Retail Water	<u>      </u>	Wholesale Water	<u>      </u>	Drainage
<u>X</u>	Retail Wastewater	<u>      </u>	Wholesale Wastewater	<u>      </u>	Irrigation
<u>      </u>	Parks/Recreation	<u>      </u>	Fire Protection	<u>      </u>	Security
<u>      </u>	Solid Waste/Garbage	<u>      </u>	Flood Control	<u>      </u>	Roads
<u>      </u>	Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect)				
<u>      </u>	Other _____				

2. **Retail service providers**      Not Applicable

**3. Total Water Consumption during the Fiscal Year** (Rounded to the Nearest Thousand)

Gallons Pumped into System: 405,438,000

Gallons Billed to Customers: 368,651,000

**4. Standby Fees** (Authorized Only Under TWC Section 49.231)

Does the District have debt service standby fees?      Yes             No   X  

Does the District have operation and maintenance standby fees?      Yes             No   X  

**5. Location of District**

County(ies) in which the District is located: Bexar

Is the District located entirely within one county?      Yes   X        No       

Is the District located within a city?      Entirely             Partly   X        Not at all       

City(ies) in which the District is located: Windcrest, San Antonio

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely             Partly   X        Not at all       

ETJs in which the District is located: Windcrest, San Antonio

Are board members appointed by an office outside the District?      Yes             No   X

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
TSI-2. ENTERPRISE FUND EXPENSES  
YEAR ENDED DECEMBER 31, 2011

<u>PERSONNEL EXPENSES (INCLUDING BENEFITS)*</u>	\$ 337,316
 <u>PROFESSIONAL FEES</u>	
Auditing	8,500
Legal	4,438
Engineering	-
Financial Advisor	-
 <u>PURCHASED SERVICES FOR RESALE</u>	
Bulk Water and Wastewater Service Purchases	578,450
 <u>CONTRACTED SERVICES</u>	
Bookkeeping	-
General Manager	-
Appraisal Authority	-
Tax Collector	-
Other Contracted Services	85,520
 <u>UTILITIES</u>	
	75,082
 <u>REPAIRS AND MAINTENANCE</u>	
	125,307
 <u>ADMINISTRATIVE EXPENDITURES</u>	
Directors' Fees	-
Office Supplies	3,467
Insurance	39,607
Other Administrative Expenditures	43,048
 <u>CAPITAL OUTLAY</u>	
Capitalized Assets	-
Expenses not Capitalized	-
 <u>TAP CONNECTION EXPENSES</u>	
	-
 <u>SOLID WASTE DISPOSAL</u>	
	-
 <u>FIRE FIGHTING</u>	
	-
 <u>PARKS AND RECREATION</u>	
	-
 <u>OTHER EXPENSES</u>	
	<u>244,752</u>
TOTAL EXPENSES	<u>\$ 1,545,487</u>

\*Number of Persons Employed by the District: 7 Full-Time 1 Part-Time

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
TSI-3. TEMPORARY INVESTMENTS  
YEAR ENDED DECEMBER 31, 2011

	<u>IDENTIFICATION OR CERTIFICATE NUMBER</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>BALANCE AT END OF YEAR</u>	<u>ACCRUED INTEREST RECEIVABLE AT END OF YEAR</u>
TexPool	151600001	0.05%	N/A	\$ 287,466	\$ -
Fellowship Federal Credit Union - Certificate of Deposit	7003-312	1.54	01/11/2013	50,000	-
Fellowship Federal Credit Union - Certificate of Deposit	7003-313	1.54	01/16/2013	50,000	-
Security Service Federal Credit Union - Certificate of Deposit	4556807080	2.32	12/01/2012	107,629	-
Security Service Federal Credit Union - Certificate of Deposit	4556807081	1.00	12/03/2012	100,000	-
San Antonio Federal Credit Union - Certificate of Deposit	0837799-30	2.96	05/22/2012	100,000	-
San Antonio Federal Credit Union - Certificate of Deposit	17256942	2.96	05/22/2012	108,892	-
Randolph Brooks Federal Credit Union - Certificate of Deposit	544298	1.05	1/30/2012	102,507	-
Randolph Brooks Federal Credit Union - Certificate of Deposit	581851	1.80	12/12/2014	100,000	-
Firstmark Credit Union- Certificate of Deposit	604820-45	1.55	8/15/2013	100,329	-
Firstmark Credit Union- Certificate of Deposit	604820-46	0.95	12/6/2013	<u>106,201</u>	-
TOTALS				<u>\$ 1,213,024</u>	<u>\$ -</u>





PERCENT OF FUND TOTAL REVENUES

<u>2008</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 633,473	\$ 422,786	39.88%	37.78%	35.19%	37.69%	30.20%
829,357	780,186	50.01	50.45	53.65	49.34	55.73
218,021	196,916	10.11	11.77	11.15	12.97	14.07
<u>1,680,851</u>	<u>1,399,888</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
317,591	331,453	18.20	21.19	19.60	18.89	23.68
7,366	7,129	0.70	0.57	0.50	0.44	0.51
71,925	71,943	4.61	5.54	5.28	4.28	5.14
551,132	549,575	31.20	33.34	36.61	32.79	39.26
87,555	42,061	6.76	4.72	6.10	5.21	3.00
67,451	45,994	4.05	3.86	3.57	4.01	3.29
93,284	53,398	4.65	5.78	13.08	5.55	3.81
248,439	191,610	13.20	15.15	14.35	14.78	13.69
<u>1,444,743</u>	<u>1,293,163</u>	<u>83.37</u>	<u>90.14</u>	<u>90.80</u>	<u>85.95</u>	<u>92.38</u>
236,108	106,725	16.63	9.86	9.20	14.05	7.62
35,669	41,710	0.78	1.08	1.72	2.12	2.98
-	-	-	1.46	-	-	-
<u>35,669</u>	<u>41,710</u>	<u>0.78</u>	<u>2.54</u>	<u>1.72</u>	<u>2.12</u>	<u>2.98</u>
<u>\$ 271,777</u>	<u>\$ 148,435</u>	<u>17.41%</u>	<u>12.40%</u>	<u>10.92%</u>	<u>16.17%</u>	<u>10.60%</u>
\$ -	\$ -					
271,777	148,435					
N/A	N/A					
2,418	2,385					
2,362	2,330					
391,580	287,237					

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10  
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS  
YEAR ENDED DECEMBER 31, 2011

Complete District Mailing Address:

8601 Midcrown  
San Antonio, Texas 78239

District Business Telephone Number:

(210) 655-2888

Limit on Fees of Office that a Director May Receive during a Fiscal Year

\$6,000

NAME	TERM OF OFFICE (ELECTED OR APPOINTED) OR DATE HIRED	FEES OF OFFICE DECEMBER 31, 2011	EXPENSE REIMBURSEMENTS DECEMBER 31, 2011	TITLE AT YEAR END
<u>BOARD MEMBERS</u>				
Melroy I. Brandt	05/10 - 05/14	\$ 1,560	\$ -	President
Paul Greenwood	05/10 - 05/14	1,440		Vice-President
Inge R. Geiger	03/10 - 05/12	1,410		Secretary
Edward F. Chevalier	11/10 - 05/12	1,400		Treasurer
Walton R. Melson	05/10 - 05/14	1,320		Director
<u>KEY ADMINISTRATIVE PERSONNEL</u>				
Richard P. Frenzel	1997	55,360		General Manager
<u>CONSULTANTS</u>				
Thompson, Williams, Biediger, Kastor & Young, L.C.	1970	8,500		Independent Certified Public Accountants
Michael S. Brenan	1981	88		District Legal Counsel
Robert Wilson, III	2011	4,350		District Legal Counsel
Sunbelt Engineering (Donald R. Frazor, P.E.)	1971	28,617		District Project Engineer

\*Current year engineering fees paid are included in current year capital asset additions.







4801 N.W. LOOP 410, SUITE 725  
SAN ANTONIO, TEXAS 78229-5508  
210/541-2581  
FAX 210/541-2588  
cpas@twbky.com

Thompson,  
Williams,  
Biediger,  
Kastor  
&  
Young,  
L.C.

CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Bexar County Water Control and  
Improvement District No. 10  
Bexar County, Texas

We have audited the financial statements of Bexar County Water Control and Improvement District No. 10 (the District) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stampson, Williams, Biediger, Hester & Young, P.C.*

Certified Public Accountants

April 19, 2012

San Antonio, Texas