

BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2012

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OF THE
BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10
YEAR ENDED DECEMBER 31, 2012

President

Melroy I. Brandt

Vice-President

Paul F. Greenwood

Treasurer

Edward F. Chevalier

Secretary

Mark J. Perry

Director

Walton R. Melson

General Manager/Tax Assessor-Collector

Richard Frenzel

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 4d 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.

Texas Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bexar County Water Control and Improvement District No. 10's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bexar County Water Control and Improvement District No. 10's internal control over financial reporting and compliance.

Alonzo, Bacarisse, Irvine & Palmer, P.C.

Certified Public Accountants

San Antonio, Texas

April 18, 2013

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, 2012. The MD&A should be read in conjunction with the accompanying basic financial statements.

The District was recognized by the Texas Commission on Environmental Quality (TCEQ) as the Outstanding Public Drinking Water System of the Year. This award is presented once every two years to two systems out of over 7,000 public drinking water systems in the State. The District was also recognized as a Superior Water Systems by the TCEQ in 2012. The criterion for either award is comprehensive and includes compliance with water quality standards, financial stability, customer service, capacity development and physical plant capabilities. We are proud of the service we provide and proud to received the recognition from our peers.

Financial Highlights

- The assets of the District exceed its liabilities by \$7,834,435 (net assets) for the fiscal year reported. This is an increase of \$173,227 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 \$5,628,943 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Unrestricted net assets of \$2,205,492 represent the portion available to fund the District's operations.
- Operating revenues decreased by \$21,695, a decrease of 1.17% from calendar year 2011. Revenue was down due to the extended drought the region is experiencing. Water consumption was only about 79% of normal. The good news is that the higher critical period rates were in effect which almost made up the difference.
- Operating expenses increased by \$130,614, an increase of 8.45% from calendar year 2011. This was due to a combination of events. We had several main breaks that caused extensive street damage and required repaving; the District incurred high legal expenses associated with reaching a new inter-local cooperative and lease agreements with the City of Windcrest; and, the Edwards Aquifer Authority approved and levied the Edwards Aquifer Recovery Implementation Program Fee which was an unbudgeted expense.
- Growth in capital assets was \$83,901.

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 \$7,834,435. This is a \$173,227 increase over last year's net assets of \$7,661,208. The following table provides a summary of the District's net assets at December 31, 2012:

SUMMARY OF NET ASSETS

	BUSINESS-TYPE ACTIVITIES		AMOUNT	PERCENT
	2012	2011	CHANGE	CHANGE
Current and Other Assets	\$ 2,398,891	\$ 2,009,462	\$ 389,429	19.38%
Capital Assets	<u>5,628,943</u>	<u>5,779,011</u>	<u>(150,068)</u>	(2.60)
Total Assets	<u>8,027,834</u>	<u>7,788,473</u>	<u>239,361</u>	3.07
Current Liabilities	183,474	116,914	66,560	56.93
Non-Current Liabilities	<u>9,926</u>	<u>10,351</u>	<u>(426)</u>	(4.11)
Total Liabilities	<u>193,399</u>	<u>127,265</u>	<u>66,134</u>	51.97
Net Assets:				
Invested in Capital Assets	5,628,943	5,779,011	(150,068)	(2.60)
Unrestricted	<u>2,205,492</u>	<u>1,882,197</u>	<u>323,295</u>	17.18
TOTAL NET ASSETS	<u>\$ 7,834,435</u>	<u>\$ 7,661,208</u>	<u>\$ 173,227</u>	2.26

The primary goal of the District's investment program is security of assets and preservation of value. The District's investments are concentrated in, and will remain in, certificates of deposit and money market accounts for the immediate future. The money market account is maintained at a level sufficient to meet the District's programmed capital expenditures.

Investment returns for 2012 continued the downward trend started several years ago. Certificate of deposit rates fell to less than 1.0% for one year certificates. During 2012, CDs were allowed to roll-over, and the Board continued to stagger maturity dates to create a five year ladder. With public fund investment policies limiting participating in riskier segments of the investment market, it appears we will be limited to certificates of deposit, money market funds, and US treasury instruments, none of which appear to be headed significantly upward in the foreseeable future. To increase its return on its investments, the District would have to get more deeply involved in other investment strategies, and with the options available to it, returns would not significantly increase. We are meeting our goal of security of assets, but we are falling short of preserving value since inflation is higher than current returns.

Revenue for water sales came in slightly below expectations. Two thousand and twelve was an unusual year. The region entered 2012 in Stage I watering restrictions because of the enduring drought that started in late 2011 and it continued through 2012. Except for February and March, the Edwards Aquifer was below normal for the entire year and we remained in Critical Period. At the end of the year, we had received above average rainfall but we were still in the midst of a severe drought. At about the time that consumption started going up, we would receive rain. At the end of the year, we had above average rainfall and were in the midst of a severe drought. The fact that Critical Period Water Rates were in effect for most of the year prevented an even greater reduction in revenue. Slightly higher than expected sewer revenue offset the loss of water revenue with the end result that overall revenue was slightly above expectations.

In early 2012, the Board considered a proposal by the General Manager to standardize the water rate structure for residential winter and summer/critical period rates. The winter rate consisted of a service availability fee (SAF) and a raising rate, five tier format. The rate structure for summer/critical period rates consists of the SAF and eight tiers. The board expressed concern that revised rate structure would result in a high rate for consumption in excess of 3,000 cubic feet (30 ccf). However, when it was pointed out that consumption at that level was at least double average consumption and that raising the rates for consumption at that level would probably result in lower consumption, the Board readily agreed to the rate structure. The revised rate had the potential to generate substantial revenue under normal conditions (non-drought/critical period), however, that did not happen in 2012 for reasons discussed in the previous paragraph.

During the normal budget process in the fall, it became apparent that an increase in water rates was going to be necessary if the district intended to continue its infrastructure improvements program. A number of options were considered and concluded with a decision to match commercial rates to winter residential rates. Supporting the decision was the fact that the District's commercial rates are much lower than that charged by other local water purveyors. At year's end, the District was notified by the San Antonio Water System that they were planning to increase sewer rates by 16.2% in early 2013.

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. 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 2011, the District's engineer and General Manager met with AT&T representatives who agreed with our assessment and agreed that they were responsible for relocating the cables. It was late summer 2012 before AT&T completed their work and the District was able to finalize its design and advertise the job. The project was awarded and work began in mid-December with a projected completion date in April 2013.

SUMMARY OF CHANGES IN NET ASSETS

	<u>BUSINESS-TYPE ACTIVITIES</u>		<u>AMOUNT</u>	<u>PERCENT</u>
	<u>2012</u>	<u>2011</u>	<u>CHANGE</u>	<u>CHANGE</u>
<u>REVENUES</u>				
Charges for Services	\$ 1,832,097	\$ 1,853,792	\$ (21,695)	(1.17)%
<u>EXPENSES</u>				
Operating Expenses	1,676,101	1,545,487	130,614	8.45
<u>OTHER REVENUES (EXPENSES)</u>				
Investment Income	<u>17,231</u>	<u>14,484</u>	<u>2,747</u>	18.97
Change in Net Assets	173,227	322,789	(149,562)	(46.33)
<u>BEGINNING NET ASSETS</u>	<u>7,661,208</u>	<u>7,338,419</u>	<u>322,789</u>	4.40
ENDING NET ASSETS	<u>\$ 7,834,435</u>	<u>\$ 7,661,208</u>	<u>\$ 173,227</u>	2.26

Financial Analysis of the District's Operations

For the calendar year ended December 31, 2012, the District has an overall positive fund balance of \$7,834,435. Of this year-end total \$2,205,942 is unrestricted, indicating availability for continuing service requirements. This year's increase in overall fund balance was \$173,227.

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2012 was \$5,628,943. The total decrease in this net investment was 2.60%. See Note 3 (on Page 11) for additional information about changes in capital assets during the calendar year.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	BUSINESS-TYPE ACTIVITIES		AMOUNT CHANGE	PERCENT CHANGE
	2012	2011		
Non-Depreciable Assets				
Land	\$ 10,776	\$ 10,776	\$ -	0.0%
Water Rights	2,091,790	2,091,790	-	0.0
Construction in Progress	132,442	48,515	83,927	172.99
Depreciable Assets				
Gathering and Distribution Systems	3,339,642	3,556,117	(216,475)	(6.09)
Equipment	54,293	71,813	(17,520)	(24.40)
TOTALS	\$ 5,628,943	\$ 5,779,011	\$ (150,068)	(2.60)

Budget, Economic Environment, and Projected Projects

The District is on solid financial ground. It has one goal in mind: to have the necessary resources and reserves available to ensure the District is able to continue providing safe, affordable water. The numbers in this report support that objective. And, we've done that without losing sight of the general economic difficulties we currently face; we have some of the lowest, if not the lowest rates in the region.

The one factor we cannot control 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.

One of the long term objectives of this District is to continue rehabilitating and upgrading our water and wastewater infrastructure. We began that effort in 1997 and have had a project under way or in the planning stage continuously since then. In that time, we have spent over \$3 million and plan to continue that process indefinitely by setting at least \$300,000 per year aside. Our rate structure, if systematically maintained will support that objective. In addition to infrastructure upgrades, the District has also been building reserves for refurbishing the District's ground and elevated storage facilities, building its own administrative complex and repairing or replacing a well.

We have confidence in the future because of work performed in the past.

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, 2012

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 969,210
Investments	1,225,509
Accounts Receivable	139,938
Inventory	33,209
Cash and Cash Equivalents - Restricted Assets	<u>31,025</u>
Total Current Assets	<u>2,398,891</u>

NONCURRENT ASSETS

Capital Assets	
Land	10,776
Water Rights	2,091,790
Gathering and Distribution Systems	8,025,182
Equipment	230,018
Construction in Progress	132,442
Less: Accumulated Depreciation	<u>(4,861,265)</u>
Total Noncurrent Assets	<u>5,628,943</u>

TOTAL ASSETS

\$8,027,834

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 121,699
Accrued Compensated Absences	3,309
Accrued Expenses	<u>27,441</u>
Total Current Liabilities	<u>152,449</u>

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Customer Deposits	<u>31,025</u>
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NON-CURRENT LIABILITIES

Accrued Compensated Absences	<u>9,926</u>
Total Liabilities	<u>193,399</u>

NET ASSETS

Invested in Capital Assets	5,628,943
Unrestricted	<u>2,205,492</u>
Total Net Assets	<u>7,834,435</u>

TOTAL LIABILITIES AND NET ASSETS

\$8,027,834

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, 2012

OPERATING REVENUES

Charges for Services	
Water Sales	\$ 661,124
Wastewater Services	956,972
Other Fees and Assessments	<u>214,001</u>
Total Operating Revenues	<u>1,832,097</u>

OPERATING EXPENSES

Personnel	337,907
Professional Fees	59,690
Contractual Services	158,916
Wastewater Services	591,037
Repairs and Maintenance	118,573
Utilities	65,281
Other Supplies and Expenses	110,728
Depreciation	<u>233,969</u>
Total Operating Expenses	<u>1,676,101</u>

Operating Income	155,996
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NON-OPERATING REVENUES

Interest Income	<u>17,231</u>
Change in Net Assets	173,227

NET ASSETS - BEGINNING

7,661,208

TOTAL NET ASSETS - ENDING

\$ 7,834,435

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
STATEMENT OF CASH FLOWS - WATER AND WASTEWATER
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 1,826,049
Cash Paid for Personnel Services	(327,122)
Cash Paid for Professional Fees	(59,690)
Cash Paid for Contractual Expenses	(158,916)
Cash Paid for Wastewater Contract	(539,917)
Cash Paid for Repairs and Maintenance	(118,573)
Cash Paid for Utilities	(65,281)
Cash Paid for Supplies and Operating Expenses	<u>(121,618)</u>
Net Cash Provided by Operating Activities	<u>434,932</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(83,901)
Purchase of Investments	<u>(12,485)</u>
Net Cash Used in Investing Activities	<u>(96,386)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	<u>17,231</u>
Net Increase in Cash and Cash Equivalents	355,777

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

644,458

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 1,000,235

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 155,996
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	233,969
Changes to Assets and Liabilities	
Accounts Receivable	(10,278)
Inventory	(10,890)
Accounts Payable	51,120
Customer Deposits	4,230
Accrued Expenses	11,353
Accrued Compensated Absences	<u>(568)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 434,932</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012

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, 2012, 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, 2012

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, 2012, the District had the following investments:

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>
TexPool Investment Pool	\$ 287,842	-
Certificates of Deposits	<u>937,667</u>	<u>0.93</u>
TOTAL	<u>\$ 1,225,509</u>	
PORTFOLIO WEIGHTED AVERAGE MATURITY		<u>0.93</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012, 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, 2012 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	83,927		132,442
Water Rights	<u>2,091,790</u>	<u>-</u>	<u>-</u>	<u>2,091,790</u>
Total Capital Assets, not being Depreciated	<u>2,151,081</u>	<u>83,927</u>	<u>-</u>	<u>2,235,008</u>
Capital Assets, being Depreciated				
Gathering and Distribution Systems	8,025,182	-	-	8,025,182
Equipment	<u>230,044</u>	<u>-</u>	<u>(26)</u>	<u>230,018</u>
Total Capital Assets, Being Depreciated	<u>8,255,226</u>	<u>-</u>	<u>(26)</u>	<u>8,255,200</u>
Less Accumulated Depreciation for				
Gathering and Distribution Systems	(4,469,065)	(216,475)	-	(4,685,540)
Equipment	<u>(158,231)</u>	<u>(17,520)</u>	<u>26</u>	<u>(175,725)</u>
Total Accumulated Depreciation	<u>(4,627,296)</u>	<u>(233,995)</u>	<u>26</u>	<u>(4,861,265)</u>
Total Capital Assets, being Depreciated - Net	<u>3,627,930</u>	<u>(233,995)</u>	<u>-</u>	<u>3,393,935</u>
CAPITAL ASSETS - NET	<u>\$ 5,779,011</u>	<u>\$ (150,068)</u>	<u>\$ -</u>	<u>\$ 5,628,943</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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 624 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 6.32% for the 2012 calendar year. The deposit rate payable by all employee members for the 2012 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, 2012, the annual pension cost for the TCDRS Plan for its employees was \$18,068 and the actual contributions were \$18,068.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2009 and December 31, 2010, the basis for determining the contribution rates for calendar years 2011 and 2012. The December 31, 2011 actuarial valuation is the most recent valuation.

<u>Actuarial Valuation Information</u>			
Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
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*	5.4	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, 2010	\$ 19,536	100%	\$ -
December 31, 2011	18,864	100	-
December 31, 2012	18,068	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, 2009	\$ 604,547	\$ 677,830	\$ 73,283	89.19%	\$ 280,185	26.16%
December 31, 2010	674,606	734,943	60,337	91.79	276,317	21.84
December 31, 2011	459,396	533,692	74,296	86.08	282,827	26.27

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012 there was no threatening or pending litigation against the District.

TEXAS SUPPLEMENTARY INFORMATION

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
TSI-1. SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2012

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: 321,310,000

Gallons Billed to Customers: 295,042,000

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, 2012

<u>PERSONNEL EXPENSES (INCLUDING BENEFITS)*</u>	\$ 337,907
 <u>PROFESSIONAL FEES</u>	
Auditing	8,750
Legal	45,631
Engineering	-
Financial Advisor	111
Other Professional Fees	5,309
 <u>PURCHASED SERVICES FOR RESALE</u>	
Bulk Water and Wastewater Service Purchases	591,037
 <u>CONTRACTED SERVICES</u>	
	158,916
 <u>UTILITIES</u>	
	65,281
 <u>REPAIRS AND MAINTENANCE</u>	
	118,573
 <u>ADMINISTRATIVE EXPENDITURES</u>	
Directors' Fees	-
Office Supplies	5,731
Insurance	43,395
Other Administrative Expenditures	58,051
 <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>237,409</u>
TOTAL EXPENSES	<u>\$ 1,676,101</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, 2012

	<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	\$ 287,842	\$ -
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	12/01/2013	110,153	-
Security Service Federal Credit Union - Certificate of Deposit	4556807081	2.37	02/03/2017	100,000	-
San Antonio Federal Credit Union - Certificate of Deposit	17256942-0011	1.29	06/29/2014	100,648	-
San Antonio Federal Credit Union - Certificate of Deposit	17256942-0010	2.96	12/01/2013	112,169	-
Randolph Brooks Federal Credit Union - Certificate of Deposit	586871	0.90	01/29/2013	103,461	-
Randolph Brooks Federal Credit Union - Certificate of Deposit	581851	1.80	12/12/2014	101,760	-
Firstmark Credit Union- Certificate of Deposit	604820-45	1.55	8/15/2013	102,019	-
Firstmark Credit Union- Certificate of Deposit	604820-46	1.20	12/6/2013	<u>107,457</u>	<u>-</u>
TOTALS				<u>\$ 1,225,509</u>	<u>\$ -</u>



PERCENT OF FUND TOTAL REVENUES

2009	2008	2012	2011	2010	2009	2008
\$ 600,214	\$ 633,473	36.09%	39.88%	37.78%	35.19%	37.69%
915,029	829,357	52.23	50.01	50.45	53.65	49.34
190,204	218,021	11.68	10.11	11.77	11.15	12.97
<u>1,705,447</u>	<u>1,680,851</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
334,348	317,591	18.44	18.20	21.19	19.60	18.89
8,489	7,366	3.26	0.70	0.57	0.50	0.44
90,016	71,925	8.67	4.61	5.54	5.28	4.28
624,296	551,132	32.26	31.20	33.34	36.61	32.79
104,074	87,555	6.47	6.76	4.72	6.10	5.21
60,947	67,451	3.56	4.05	3.86	3.57	4.01
81,543	93,284	6.04	4.65	5.78	13.08	5.55
<u>244,654</u>	<u>248,439</u>	<u>12.77</u>	<u>13.20</u>	<u>15.15</u>	<u>14.35</u>	<u>14.78</u>
<u>1,548,467</u>	<u>1,444,743</u>	<u>91.49</u>	<u>83.37</u>	<u>90.14</u>	<u>90.80</u>	<u>85.95</u>
<u>156,980</u>	<u>236,108</u>	<u>8.51</u>	<u>16.63</u>	<u>9.86</u>	<u>9.20</u>	<u>14.05</u>
29,321	35,669	0.94	0.78	1.08	1.72	2.12
-	-	-	-	1.46	-	-
<u>29,321</u>	<u>35,669</u>	<u>0.94</u>	<u>0.78</u>	<u>2.54</u>	<u>1.72</u>	<u>2.12</u>
<u>\$ 186,301</u>	<u>\$ 271,777</u>	<u>9.45%</u>	<u>17.41%</u>	<u>12.40%</u>	<u>10.92%</u>	<u>16.17%</u>
\$ -	\$ -					
186,301	271,777					
N/A	N/A					
2,434	2,418					
2,376	2,362					
355,093	391,580					

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
YEAR ENDED DECEMBER 31, 2012

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, 2012	EXPENSE REIMBURSEMENTS DECEMBER 31, 2012	TITLE AT YEAR END
<u>BOARD MEMBERS</u>				
Melroy I. Brandt	05/10 - 11/14	\$ 1,560	\$ -	President
Paul Greenwood	05/10 - 11/14	1,440	-	Vice-President
Inge R. Geiger	01/10 - 05/12	600	-	Secretary
Edward F. Chevalier	05/12 - 11/16	1,400	-	Treasurer
Walton R. Melson	05/10 - 11/14	1,320	-	Director
Mark J. Perry	05/12 - 11/16	960	-	Secretary
<u>KEY ADMINISTRATIVE PERSONNEL</u>				
Richard P. Frenzel	1997	61,052	-	General Manager
<u>CONSULTANTS</u>				
Alonzo, Bacarisse, Irvine & Palmer, P.C.	1970	8,750	-	Independent Certified Public Accountants
Robert Wilson, III	2011	45,631	-	District Legal Counsel
Sunbelt Engineering (Donald R. Frazor, P.E.)	1971	34,588	-	District Project Engineer

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

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
NO. 1. ANNUAL FILING AFFIDAVIT
DECEMBER 31, 2012

THE STATE OF TEXAS §
COUNTY OF BEXAR §

I, Melroy I. Brandt of the BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 hereby swear, or affirm that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 18th day of April, 2013 its annual audit report for the fiscal year or period ended December 31, 2012, and that copies of the annual audit report have been filed in the district office, located at San Antonio, Bexar County, Texas.

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Water Code.

Date: April 18, 2013

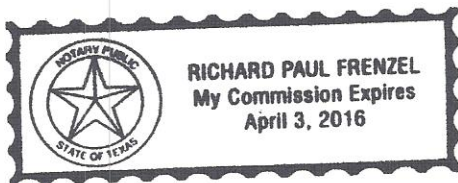


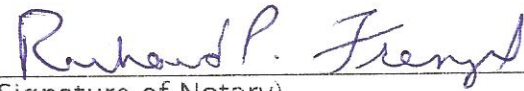
(Signature of District Representative)

Melroy I. Brandt, President

(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 18th day of April, 2013





(Signature of Notary)

(Printed Name of Notary)

My Commission Expires on: _____
Notary Public in and for the State of Texas.



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, in accordance with the 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, the financial statements of Bexar County Water Control and Improvement District No. 10 (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alonzo, Bacarisse, Irvine & Palmer, P.C.

Certified Public Accountants

April 18, 2013

San Antonio, Texas